

SEC Registration Number

(Company's Full Name)

(Business Address: No. Street City/Town/Province)

(Contract Person)

(Company Telephone Number)

(Form Type)

Month \_\_\_\_\_ Day \_\_\_\_\_  
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

### QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE



1. For the quarterly period ended : 31 March 2017
2. Commission Identification Number : 145490
3. BIR Tax Identification Number : 000-144-386

#### **SHANG PROPERTIES, INC.**

4. Exact name of the Issuer as specified in this charter: \_\_\_\_\_
5. Province, country or other jurisdiction of incorporation or organization: Not Applicable
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Level 5, Shangri-La Plaza Mall, EDSA cor Shaw Boulevard, Mandaluyong City 1550  
Postal Code  
(632) 370-2700
8. Issuer's telephone number, including area code \_\_\_\_\_

9. Former name, former address and former fiscal year, if changed since last report: \_\_\_\_\_
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA.

#### **Title of each Class** **Common Stock**

Number of shares of common stock  
outstanding and amount of debt outstanding  
4,764,056,287 common shares

11. Are any or all of the securities listed on a Stock Exchange?  
Yes ☒ No ☐

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports).

Yes ☒ No ☐

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒ No ☐

## **PART 1 – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

Please see attached.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Please see attached.

## **SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SHANG PROPERTIES, INC.**

Issuer

By:



**KARLO MARCO P. ESTAVILLO**  
Treasurer/Chief Financial Officer



**KIN SUN-ANDREW NG**  
Group Financial Controller

Date of Signing: 15 May 2017



## PART 1 – FINANCIAL INFORMATION

### Item 1. Management Discussion and Analysis of Financial Condition and Results of Operations

#### Key Performance Indicators

		March 31 2017	March 31 2016	Change
Turnover	(Php M)	2,134	1,996	6.9%
Profit attributable to shareholders	(Php M)	474	529	-10.3%
Earnings per share	(Php Ctv)	0.100	0.111	-10.3%
Net asset value per share	(Php)	5.894	5.461	7.9%
Debt to equity ratio	(Ratio)	0.845:1	0.866:1	-2.4%

- Turnover consists of sales of residential condominium units, rental and cinema, hotel operation, and other income. For three (3) months ended March 31, 2017, Shang Properties' revenue increased by P137.5 million (M) to P2.1 billion (B) from P2.0B revenues during the same period in 2016. Sales of residential condominium units accounted for P692.6M or 32.5% of the total revenue. Revenue from leasing operations amounted to P731.5M or 34.3% of the total revenue and higher by P41.2M from P690.3M of the same period last year. Shangri-La at Fort's hotel operations contributed revenue amounting to P596.3M, higher by P527.7M from P68.6M of the same period last year. Other income increased by P38.8M due to foreign exchange gain and dividend income.
- Profit attributable to shareholders that represents net income from operations after tax amounted to P474.4M, lower by P54.5M or 10.3% compared with the same period last year.
- Earnings per share showed a negative variance of 10.3% to P0.100 from last year's P0.111.
- Net asset value per share is calculated by dividing the total net asset of the Group (Total asset – Total liabilities and minority interest) by the number of shares outstanding. Net asset value per share increased by 7.9% mainly due to the higher equity during the period.
- Debt to equity measures the exposure of creditors to that of the stockholders. It gives an indication of how leveraged the group is. It is determined by dividing total debt by stockholder's equity. The Group's financial position remains solid with debt to equity ratio of 0.845:1 as of March 31, 2017 and 0.866:1 as of March 31, 2016.



## **Financial Condition**

Total assets of the Company amounted to ₱61.4B, a decrease of ₱357.3M from total assets of ₱61.8B in December 31, 2016. The following are significant movements in the assets:

- Decrease in cash and cash equivalents by ₱560.3M mainly due to payment of bank loans and dividends to stockholders.
- Increase in financial assets at fair value through profit or loss by ₱1.9M due to fair market value adjustments recognized during the period.
- Increase in receivables by ₱149.4M mainly due increase in advances to contractors and suppliers for the ongoing projects.
- Increase in input tax and other current assets by ₱84.9M mainly due to higher prepaid assets during the first quarter of 2017 as compared to the end of 2016.
- Decrease in other noncurrent assets by ₱7.5M mainly due to amortization deferred input VAT.
- Current ratio is 1.99:1 as of March 31, 2017 from 2.09:1 as of December 31, 2016.

The net decrease in total liabilities by ₱313.7M from ₱28.4B in 2016 to ₱28.1B in 2017 is mainly due to the following:

- Decrease in bank loans due to repayments amounting to ₱733.3M during the first quarter of 2017.
- Increase in income tax payable by ₱99.1M due to the taxable income generated during the period.
- Increase in dividends payable by ₱452.4M due to the declaration of cash dividend on March 15, 2017 amounting to ₱452.6M to all shareholders of record as of March 31, 2017.
- Decrease in accrued employee benefits by ₱10.6M mainly due to payments made during the period.
- Decrease in installment payable by ₱35.8M was due to scheduled payment during the quarter.
- Increase in advance rental by ₱7.5 M is mainly due to rental from new tenants.
- Decrease in deferred lease income by ₱8.5M mainly due to lower rates used to revalue the rental deposits from tenants of The Enterprise Center.

## **Results of Operation**

Consolidated net income for the period ended March 31, 2017 amounted to ₱474.4M lower by 10.3% from last year's ₱528.9M.

Net increase in Turnover by ₱137.5M or 6.9% to ₱2.1B in 2017 from ₱2.0B in 2016, mainly due to the following:

- Decrease in condominium sales by ₱470.3M mainly due to the lower sales recognition from Shangri-La at the Fort – Horizon Homes.
- Increase in rental and cinema revenue by ₱41.2M mainly due to rental escalation, higher rental yields of The Enterprise Center and rental revenue from shops in Shangrila Hotel at the Fort in the first quarter of 2017.
- Increase in revenue from hotel services of Shangri-La at the Fort by ₱527.7M mainly due to its full operation for first quarter of 2017 as compared to its start-up activities in March 2016.
- Interest income and other income increase by ₱38.8M mainly due to the foreign exchange gains and dividend income.

Cost of sales and services of the Group amounted to ₱1.5B, higher by ₱302.7M compared with last year's ₱1.1B due to net effect of the following:

- Decrease in cost of condominium sales by ₱217.4M mainly due to lower sales recognition during the period.
- Increase in cost of rental and cinema by ₱12.6M mainly due to higher utility costs incurred as compared to same period in 2016.
- Increase in cost of hotel services by ₱393.7M in connection with the hotel services rendered.

Operating expenses of the Group amounted to ₱247.4M, higher by ₱62.6M or 33.8% from last year's ₱184.9M mainly due to the net effect of the following:

- Increase in general and administrative expense by ₱53.0M mainly due to higher administration cost incurred for ongoing projects.
- Increase in taxes and licenses by ₱10.4M mainly due to higher business permits paid driven by higher revenue earned.
- Decrease in depreciation by ₱0.8M mainly due to assets that have been fully depreciated.

Increase in interest and bank charges by ₱51.2M mainly due to higher outstanding bank loans this year.

Provision for income tax is lower by P31.1M mainly due to lower taxable income generated during the period compared with the same period last year.

**Financial Soundness Indicators**

	<b>End of March 2017</b>	<b>End of December 2016</b>
Current Ratio <sup>1</sup>	1.99:1	2.09:1
Debt-to-equity ratio <sup>2</sup>	0.84:1	0.85:1
Asset-to-equity ratio <sup>3</sup>	1.84:1	1.85:1
	<b>1Q 2017<sup>7</sup></b>	<b>1Q 2016</b>
Interest rate coverage ratio <sup>4</sup>	8.44:1	22.49:1
Return on assets <sup>5</sup>	3.08%	3.53%
Return on equity <sup>6</sup>	5.70%	6.53%

<sup>1</sup>Current assets/current liabilities

<sup>2</sup>Total liabilities/stockholders' equity

<sup>3</sup>Total asset/stockholders' equity

<sup>4</sup>Income before interest and taxes/interest expense

<sup>5</sup>Net Income/average total assets

<sup>6</sup>Net Income/average stockholders' equity

<sup>7</sup>1Q Net income after tax annualized/average of end March 2017 and end December 2016 assets and equity

**Item 2. Information required by Part III, Paragraph (A) (2) (b) of “Annex C” of SRC Rule 12**

- There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely result in the registrant's liquidity increasing or decreasing in any material way.
- There are no known events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of obligation.
- There are no off material balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- There are no material commitments for capital expenditures.



- There are no known trends, events or uncertainties that have had or that are reasonably expected to have material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- There are no significant elements of income or loss that did not arise from the registrant's continuing operations.
- There are no material changes in periodical reports.
- There are no seasonal aspects that had a material effect on the financial statements.

**Item 3. Other Required Disclosures**

- A.) The attached interim financial reports were prepared in accordance with Philippine Financial Reporting Standard. The accounting policies and methods of computation followed in these interim financial statements are the same compared with the audited financial statements for the period ended December 31, 2016.
- B.) Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.
- C.) There were no materials changes in estimates of amounts reported in prior period that have material effects in the current interim period.
- D.) Except as disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there were no other issuances, repurchases and repayments of debt and equity securities.
- E.) There are no significant events happened subsequent to March 31, 2017 up to the date of this report that needs disclosure herein.
- F.) For the required disclosure as per SEC letter dated October 29, 2008 on the evaluation of the company's risk exposure and financial instruments profile please see Note 10 of the attached interim financial statement.

# **Shang Properties, Inc. and Subsidiaries**

Consolidated Financial Statements  
March 31, 2017 and 2016

**SHANG PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts expressed in Php)

	Notes	Unaudited March 31 2017	Audited December 31 2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		3,680,877,670	4,241,131,012
Financial assets at fair value through profit or loss		34,470,448	32,597,501
Receivables		3,091,670,287	2,942,253,373
Properties held for sale		10,671,858,687	10,653,702,058
Input tax and other current assets		1,790,392,166	1,705,532,427
<b>Total Current Assets</b>		<b>19,269,269,257</b>	<b>19,575,216,371</b>
<b>Noncurrent Assets</b>			
Installment contract receivable - net of current portion		864,665,330	864,665,330
Investment in associates and joint venture	4	497,745,353	495,635,612
Investment properties		29,134,400,474	28,979,498,629
Real estate development projects		275,632,515	275,632,515
Available-for-sale financial assets		508,292,842	508,292,842
Property and equipment	5	10,244,205,485	10,447,830,429
Goodwill		269,870,864	269,870,864
Deferred income tax assets - net		207,809,511	205,027,317
Other noncurrent assets		142,757,205	150,264,226
<b>Total Noncurrent Assets</b>		<b>42,145,379,578</b>	<b>42,196,717,764</b>
<b>TOTAL ASSETS</b>		<b>61,414,648,835</b>	<b>61,771,934,135</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities		6,140,513,847	6,245,107,867
Current portion of:			
Installment payable		199,234,295	199,234,295
Bank loans	6	2,143,310,252	2,276,643,585
Deposits from tenants		533,286,874	533,286,874
Deferred lease income		18,066,878	18,066,878
Income tax payable		176,985,585	77,868,930
Dividends payable		485,426,120	33,035,177
<b>Total Current Liabilities</b>		<b>9,696,823,851</b>	<b>9,383,243,606</b>
<b>Non-Current Liabilities</b>			
Installment payable - net of current portion		535,263,134	571,036,378
Accrued employee benefits		30,434,127	41,067,131
Bank loans- net of current portion	6	10,159,482,775	10,759,482,775
Deferred income tax liabilities - net		6,968,114,455	6,956,271,251
Advance rental - net of current portion		142,935,804	135,481,307
Deposit from tenants - net of current portion		571,865,530	563,478,901
Deferred lease income - net of current portion		14,893,562	23,404,553
<b>Total Noncurrent Liabilities</b>		<b>18,422,989,387</b>	<b>19,050,222,296</b>
<b>Total Liabilities</b>		<b>28,119,813,238</b>	<b>28,433,465,902</b>
<b>Stockholder's Equity</b>			
Capital stock:			
Common stock - P1 par value		4,764,058,982	4,764,058,982
Additional paid-in capital		834,439,607	834,439,607
Treasury shares		(6,850,064)	(6,850,064)
Other components of equity		(141,960,983)	(142,015,638)
Retained earnings		22,488,682,790	22,466,858,146
Equity attributable to non-controlling interest		5,356,465,265	5,421,977,200
<b>Total Equity</b>		<b>33,294,835,597</b>	<b>33,338,468,233</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>61,414,648,835</b>	<b>61,771,934,135</b>

(See accompanying notes to consolidated financial statements)



**SHANG PROPERTIES INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

	<b>UNAUDITED</b>	
	<b>FOR THE THREE (3) MONTHS ENDED</b>	
	<b>31-Mar-17</b>	<b>31-Mar-16</b>
<b>REVENUES</b>		
Condominium sales	692,636,692	1,162,889,404
Rental and cinema	731,480,217	690,297,157
Hotel operation	596,286,675	68,553,894
	<u>2,020,403,584</u>	<u>1,921,740,457</u>
<b>COST OF SALES AND SERVICES</b>		
Condominium sales	437,580,958	654,939,272
Rental and cinema	30,066,834	17,448,202
Hotel operation	655,805,049	262,151,435
	<u>1,123,452,841</u>	<u>934,538,910</u>
<b>GROSS INCOME</b>	<b>896,950,743</b>	<b>987,201,547</b>
<b>OPERATING EXPENSES</b>		
General and administrative	178,365,668	125,322,318
Taxes and licenses	65,051,768	54,683,733
Depreciation and amortization	3,902,859	4,743,012
Insurance	125,034	132,223
	<u>247,445,329</u>	<u>184,881,286</u>
<b>OTHER INCOME</b>		
Interest income	56,682,443	49,702,671
Foreign exchange gains - net	15,430,763	(5,884,970)
Other income - net	40,997,869	30,466,750
	<u>113,111,075</u>	<u>74,284,451</u>
<b>SHARE IN LOSSES OF AN ASSOCIATED COMPANY</b>	<b>(1,690,260)</b>	<b>(1,703,741)</b>
<b>INTEREST EXPENSE AND BANK CHARGES</b>	<b>90,105,010</b>	<b>38,894,607</b>
<b>INCOME BEFORE TAX</b>	<b>670,821,219</b>	<b>836,006,364</b>
<b>PROVISION FOR INCOME TAX</b>	<b>(157,062,908)</b>	<b>(188,145,982)</b>
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>513,758,311</b>	<b>647,860,382</b>
<b>MINORITY INTEREST</b>	<b>(39,348,065)</b>	<b>(118,938,245)</b>
<b>NET INCOME</b>	<b>474,410,246</b>	<b>528,922,137</b>
<b>RETAINED EARNINGS, beg.</b>	<b>22,466,858,148</b>	<b>20,346,650,494</b>
<b>LESS: CASH DIVIDENDS</b>	<b>(452,585,603)</b>	<b>(452,585,603)</b>
<b>RETAINED EARNINGS, end.</b>	<b>22,488,682,790</b>	<b>20,422,987,028</b>
<b>BASIC AND DILUTED EARNINGS</b>		
<b>PER SHARE</b>	<b>0.10</b>	<b>0.11</b>

(See accompanying notes to consolidated financial statements)

**SHANG PROPERTIES INC. & SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Amounts expressed in Php)

(Unaudited)

	Notes	Capital stock Pesos	Additional paid-in capital Pesos	Treasury stock Pesos	Other components of equity Pesos	Retained earnings Pesos	Non-controlling Interest Pesos	Total Pesos
Balance as of January 1, 2016		4,764,058,982	834,439,607	(6,850,064)	(7,126,043)	20,346,650,494	6,370,409,789	32,301,582,765
Cumulative translation adjustment		-	-	-	(173,097)	-	-	(173,097)
Cash dividends	7	-	-	-	-	(452,585,603)	-	(452,585,603)
Net income for the period		-	-	-	-	528,922,137	118,938,245	647,860,382
Balance as of March 31, 2016		4,764,058,982	834,439,607	(6,850,064)	(7,299,140)	20,422,987,028	6,489,348,033	32,496,684,447
Balance as of January 1, 2017		4,764,058,982	834,439,607	(6,850,064)	(142,015,638)	22,466,858,146	5,421,977,200	33,338,468,233
Cumulative translation adjustment		-	-	-	54,655	-	-	54,655
Cash dividends	7	-	-	-	-	(452,585,603)	(104,860,000)	(557,445,603)
Net income for the period		-	-	-	-	474,410,246	39,348,065	513,758,311
Balance as of March 31, 2017		4,764,058,982	834,439,607	(6,850,064)	(141,960,983)	22,488,682,790	5,356,465,265	33,294,835,597

(See accompanying notes to consolidated financial statements)

**SHANG PROPERTIES INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts expressed in Php)

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before income tax	670,821,219	717,068,120
Adjustment for:		
Interest income	(56,682,443)	(49,702,671)
Interest expense	89,861,388	47,297,260
Depreciation and amortization	3,902,859	4,743,012
Cumulative translation adjustment	54,655	(173,097)
Dividend income	(19,521,030)	(3,330,411)
Change in fair value of financial assets at FVPL	(1,872,947)	(1,246,581)
Share in profit (loss) of associate companies	1,690,260	1,703,741
Unrealized foreign exchange losses (gains) - net	(15,430,763)	5,884,970
Operating income before working capital changes	672,823,199	722,244,342
Decrease (increase) in:		
Receivables	(149,416,914)	249,534,585
Properties held for sale	(18,156,629)	(534,411,578)
Input tax and other current assets	(84,859,739)	(140,052,170)
Increase (decrease) in:		
Accounts payable and other current liabilities	40,305,819	487,108,480
Deferred lease income	(8,510,991)	(1,436,759)
Accrued employee benefits	(10,633,004)	(2,519,906)
Net cash generated from (used in) from operations	441,551,741	780,466,993
Interest received	58,137,526	50,397,499
<b>Net cash provided by operating activities</b>	<b>499,689,267</b>	<b>830,864,493</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Investment properties	(154,901,845)	10,835,976
Property and equipment	(11,942,820)	(638,972,773)
Investment in associates	(2,109,740)	(1,296,254)
Decrease in real estate development projects	—	(32,409,153)
Decrease in other assets	(4,724,827)	(22,809,979)
Dividends received	19,521,030	3,330,411
<b>Net cash used in investing activities</b>	<b>(154,158,202)</b>	<b>(681,321,772)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan availment, net of debt issue costs	—	297,750,000
Payments of:		
Loan principal	(733,333,333)	—
Interest	(91,213,806)	(38,973,645)
Cash dividends paid to:		
Stockholders	(194,660)	(50,883)
Non-controlling interest	(104,860,000)	—
Increase in deposits from tenants	8,386,629	14,076,667
<b>Net cash used in financing activities</b>	<b>(921,215,170)</b>	<b>272,802,139</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>15,430,763</b>	<b>(5,884,970)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(560,253,342)</b>	<b>416,459,889</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>4,241,131,012</b>	<b>4,041,169,742</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>3,680,877,670</b>	<b>4,457,629,631</b>

(See accompanying notes to consolidated financial statements)



## SHANG PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE THREE (3) MONTHS ENDED MARCH 31, 2017 AND 2016

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#### 1. Summary of Significant Accounting and Financial Reporting Policies

##### Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements of the Group are presented in Philippine Peso (Peso), which is the Parent Company's functional and presentation currency, with amounts rounded to the nearest Peso.

##### Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council (FRSC).

##### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries as at March 31, 2017 and December 31, 2016 and for each of the two years in the period ended March 31, 2017.

Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls the subsidiary if and only if the Group has:

- Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary),
- Exposure, or rights, to variable returns from its involvement with the subsidiary, and
- The ability to use its power over the subsidiary to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interest (NCI).
- Derecognizes the cumulative translation differences recorded in equity.

- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

The following are the subsidiaries for which the Parent Company acts as the principal decision maker:

	Effective Percentages of Ownership As of March 31, 2017
Property Development:	
SPRC	100.00%
SPDI	100.00%
TRDCI	100.00%
SGCPI	60.00%
SWWPI	100.00%
Leasing:	
SPSI	100.00%
SLPC	100.00%
KSA	70.04%
Real Estate:	
IPPI	100.00%
KRC	100.00%
MBPI	100.00%
NCRI	100.00%
PSI	100.00%
SFBHI	100.00%
SGCHI	100.00%
Property Management:	
KMSC	100.00%
SPMSI	100.00%
Others:	
Gipsey (BVI Company)	100.00%
SHIL (BVI Company)	100.00%
ELHI	60.00%

Except for Gipsey and SHIL, which were incorporated in the British Virgin Islands, all the other subsidiaries were incorporated in the Philippines.

#### New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016.



Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have any impact on the Group's financial position and results of operation.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.



- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

*Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.



- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of PFRS 15.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

These amendments are not expected to have any impact on the Group.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual



reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

These amendments are not expected to have any impact on the Group.

- **Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration***

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

These amendments are not expected to have any impact on the Group.

*Effective beginning on or after January 1, 2019*

- **PFRS 16, *Leases***

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

*Deferred effectivity*

- **Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.



On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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## 2. Segment Information

The Group's operating businesses are organized and managed according to the nature of the products and services marketed, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group has operations only in the Philippines. The Group derives revenues from two main segments as follows:

### *Property Development*

This business segment pertains to the sale of condominium units.

### *Leasing*

This business segment pertains to the leasing operations of the Shangri-La Plaza Mall, TEC and their related carpark operations. It also includes leasing of a portion of the Parent Company's land to ESHRI.

Other business segments pertain to property management services and the results of operations of real estate entities and BVI companies.

Except for the rental revenue from ESHRI, revenues come from transactions with third parties. There is no transaction with a single external customer that amounts to 10% or more of the Group's aggregate revenues.

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended March 31, 2017 are as follows:

	Property Development	Rental and Cinema	Hotel Operations	Others	Total Segments	Eliminations	Consolidated
Revenues:							
Condominium sales	₱692,636,692	₱-	₱-	₱-	₱692,636,692	₱-	₱692,636,692
Rental and cinema	-	788,678,867	-	-	788,678,867	(57,198,650)	731,480,217
Hotel operations	-	-	596,286,675	-	596,286,675	-	596,286,675
Cost of sales and services:							
Condominium sales	(437,580,958)	-	-	-	(437,580,958)	-	(437,580,958)
Rental and cinema	-	(30,066,834)	-	-	(30,066,834)	-	(30,066,834)
Hotel operations	-	-	(655,805,049)	-	(655,805,049)	-	(655,805,049)
Gross income	255,055,734	758,612,033	(59,518,374)	-	954,149,393	(57,198,650)	896,950,743
Other income	17,630,259	4,658,136	-	29,581,820	51,870,215	(10,872,346)	40,997,869
Staff costs	(24,562,508)	(68,297,316)	-	(4,062,145)	(96,921,969)	(15,278,485)	(112,200,454)
General and administrative expenses	(24,411,654)	(39,566,001)	-	(2,196,100)	(66,173,755)	8,546	(66,165,209)
Taxes and licenses	(43,364,170)	(20,328,386)	-	(1,359,212)	(65,051,768)	-	(65,051,768)
Depreciation and amortization	(606,234)	(87,016,345)	-	(18,177)	(87,640,756)	83,737,897	(3,902,859)
Insurance	(62,314)	(53,722)	-	(8,998)	(125,034)	-	(125,034)
Segment results	179,679,113	548,008,400	(59,518,374)	21,937,190	690,106,326	396,961	690,503,287
Interest income	51,095,062	5,432,129	-	155,252	56,682,443	-	56,682,443
Foreign exchange gains – net	6,090,349	9,336,407	-	4,007	15,430,763	-	15,430,763
Share in net income of associates and joint venture	-	-	-	(1,690,266)	(1,690,266)	-	(1,690,266)
Interest expense and bank charges	(55,647,430)	(34,452,380)	-	(5,201)	(90,105,010)	-	(90,105,010)
Provision for income tax	(71,765,772)	(95,481,652)	-	10,184,516	(157,062,908)	-	(157,062,908)
Net income for the year	₱109,451,322	₱432,842,904	(₱59,518,374)	₱30,585,498	₱513,361,350	₱396,961	₱513,758,311
Segment assets	₱11,082,263,021	₱26,240,521,864	₱16,555,882,970	₱18,864,942,126	₱72,743,609,981	(₱11,826,706,500)	₱60,916,903,482
Associate companies	-	-	-	497,745,354	497,745,354	-	497,745,354
Total assets	₱11,082,263,021	₱26,240,521,864	₱16,555,882,970	₱19,362,687,480	₱73,241,355,335	(₱11,826,706,500)	₱61,414,648,835
Segment liabilities	₱17,779,593,551	₱11,133,047,336	₱10,367,950,742	₱5,172,820,362	₱34,085,461,249	(₱5,965,648,011)	₱28,119,813,238
Capital expenditures for the year	₱ 5,482,103	₱6,123,824	₱-	₱349,996	₱11,955,922	₱-	₱11,955,922



The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended December 31, 2016 are as follows:

	Property Development	Rental and Cinema	Hotel Operations	Others	Total Segments	Eliminations	Consolidated
Revenues:							
Condominium sales	₱6,253,427,534	₱—	₱—	₱—	₱6,253,427,534	(₱147,427,550)	₱6,105,999,984
Rental and cinema	—	3,126,342,878	—	—	3,126,342,878	(233,937,605)	2,892,405,273
Hotel operations	—	—	1,344,616,051	—	1,344,616,051	—	1,344,616,051
Cost of sales and services:							
Condominium sales	(3,564,830,699)	—	—	—	(3,564,830,699)	58,712,882	(3,506,117,817)
Rental and cinema	—	(134,819,051)	—	—	(134,819,051)	—	(134,819,051)
Hotel operations	—	—	(1,459,547,660)	—	(1,459,547,660)	—	(1,459,547,660)
Gross income	2,688,596,835	2,991,523,827	(114,931,609)	—	5,565,189,053	(322,652,273)	5,242,536,780
Gain on fair value adjustments of investment properties	—	48,154,851	—	488,548,444	536,703,295	—	536,703,295
Other income	66,158,146	59,681,836	—	58,859,261	184,699,243	(55,297,502)	129,401,741
Staff costs	(312,797,928)	(245,569,769)	—	(12,558,667)	(570,926,364)	58,690,358	(512,236,006)
General and administrative expenses	(240,598,093)	(343,133,208)	(173,989,491)	(4,171,407)	(761,892,199)	252,653,439	(509,238,760)
Taxes and licenses	(80,711,336)	(81,461,270)	—	(725,629)	(162,898,235)	—	(162,898,235)
Depreciation and amortization	(3,359,645)	(250,020,353)	—	(111,655)	(253,491,653)	234,787,162	(18,704,491)
Insurance	(281,494)	(2,997,652)	(14,568,487)	(10,899)	(17,858,532)	—	(17,858,532)
Segment results	2,117,006,485	2,176,178,262	(303,489,587)	529,829,448	4,519,524,608	168,181,184	4,687,705,792
Interest income	228,252,188	30,834,418	—	818,424	259,905,030	—	259,905,030
Foreign exchange gains – net	9,392,774	675,710	—	(132,074,621)	(122,006,137)	132,069,859	10,063,722
Share in net income of associates and joint venture	—	—	—	(4,312,738)	(4,312,738)	—	(4,312,738)
Interest expense and bank charges	(109,376,573)	(164,113,730)	—	(3,723)	(273,494,026)	—	(273,494,026)
Provision for income tax	(628,671,666)	(420,326,797)	—	(73,519,756)	(1,122,518,219)	(81,699,329)	(1,204,217,548)
Net income for the year	₱1,616,603,208	₱1,623,247,863	(₱303,489,587)	₱320,737,034	₱3,257,098,518	₱218,551,714	₱3,475,650,232
Segment assets	₱19,904,278,170	₱26,651,730,083	₱8,132,392,278	₱6,965,402,730	₱61,653,803,261	(₱377,504,738)	₱61,276,298,523
Associate companies	—	—	—	495,635,612	495,635,612	—	495,635,612
Total assets	₱19,904,278,170	₱26,651,730,083	₱8,132,392,278	₱7,461,038,342	₱62,149,438,874	(₱377,504,738)	₱61,771,934,135
Segment liabilities	₱8,562,984,817	₱10,605,798,141	₱9,989,325,981	₱5,216,048,178	₱34,374,157,117	(₱5,940,691,215)	₱28,433,465,902
Capital expenditures for the year	₱1,826,007	₱279,991,366	₱1,335,521,773	₱178,567	₱1,617,517,713	₱—	₱1,617,517,713



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### 3. Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

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#### 4. Investment in associates and joint venture

The breakdown of investment in associates is as follows:

Associate acquired thru the merger:	
Sky Leisure Properties Inc.	₱497,356,368
Other investments	388,985
Carrying value of investment in associates as of March 31, 2017	<u>₱497,745,353</u>

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#### 5. Property and Equipment

This account consists of:

	Building and building improvement	Transportation Equipment	Furniture, Fixtures and other Office Equipment	Total
Net book value as at				
January 1, 2017	₱10,063,038,701	₱15,170,666	₱369,621,062	₱10,447,830,429
Additions	–	5,668,750	6,287,172	11,955,922
Depreciation	(192,479,084)	(1,519,047)	(21,569,632)	(215,567,763)
Reclassification	–	–	(13,103)	(13,103)
Net book value as at				
March 31, 2017	<u>₱9,870,559,617</u>	<u>₱19,320,369</u>	<u>₱354,325,499</u>	<u>₱ 10,244,205,485</u>

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#### 6. Bank Loans

Principal payments during the period amounted to ₱733.3 million, while proceeds from loan availment amounted to nil.

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#### 7. Dividends

On March 15, 2017, the Board of Directors (BOD) approved the declaration of ₱452.6 million cash dividends to all stockholders of record as of March 31, 2017 to be taken from the unrestricted retained earnings of the Parent Company as of December 31, 2016.

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#### 8. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.



The following are the transactions with related parties:

Related Party Transactions and Balances which were Not Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were not eliminated during consolidation are as follows:

*Transactions with affiliates*

- a. A portion of the Parent Company's land is being leased by ESHRI, where the EDSA Shangri-La Manila Hotel (the Hotel) is located. The lease is for a period of 25 years commencing on August 28, 1992 and renewable for another 25 years at the option of ESHRI. Rental revenue is based on a fixed percentage of the Hotel's room, food and beverage, dry goods and other service revenue.
- b. SGCPI has a Marketing and Reservations Agreement with Shangri-La International Hotel Management Limited (SLIM) whereby the latter, acting as an independent contractor of SGCPI, provides marketing, communication, and reservation services to promote SGCPI. The agreement is for a period of 10 years commencing on the opening date, March 1, 2016, renewable for another 10 years at the option of either parties.
- c. SGCPI entered into a License Agreement with SLIM, for the use of intellectual property rights over Shangri-La's policies, practices, procedures, and guidelines affecting different aspects of operations of the Shangri-La chain of hotels. The agreement is for 10 years commencing on the opening date, March 1, 2016, renewable for another 10 years at the option of either parties and subject to the approval of the Bureau of Patents, Trademarks and Technology Transfer of the Republic of the Philippines and applicable authorities.
- d. SPMSI provides management services to TECCC, TSFSPCC, TSGTCC and OSPCC for a minimum period of five years starting January 7, 2009, April 1, 2010 and January 7, 2007, respectively. As consideration, SPMSI shall receive from TSGTCC, TECCC, TSFSPCC and OSPCC monthly management fees of ₱400,000, ₱100,000, ₱100,000 and ₱250,000, respectively, inclusive of VAT, with an escalation rate of 10% per annum. The parties agree mutually on the renewal of the agreements.
- e. Reimbursement of expenses paid for by SLPC for ESHRI.
- f. Condominium dues charged by TSFSPCC and TECCC to Parent Company, KSA, SPDI and SPRC.
- g. Sharing of expenses with affiliates.
- h. Certain expenses are initially paid for by the Group (affiliate) and are subsequently reimbursed by the affiliate (the Group) to whom such payment was intended for.

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**9. Subsequent Events**

There are no significant subsequent events that happened as of March 31, 2017 that needs disclosure herein.



## 10. Fair Value Measurement and Financial Instruments

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of March 31, 2017:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets Measured at Fair Value</b>				
Financial assets at FVPL	<b>₱34,470,448</b>	<b>₱–</b>	<b>₱–</b>	<b>₱34,470,448</b>
Investment properties:				
Land	–	–	10,309,700,807	10,309,700,807
Buildings	–	–	18,824,699,667	18,824,699,667
AFS financial assets:				
Quoted	19,466,515	–	–	19,466,515
<b>Assets for which Fair Values are Disclosed</b>				
Loans and receivables:				
Refundable deposits	₱–	₱104,942,062	₱–	₱104,942,062
<b>Liabilities for which Fair Values are Disclosed</b>				
Installment payable	₱–	₱734,497,429	₱–	₱734,497,429
Deposits from tenants	–	1,105,152,404	–	1,105,152,404

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2016:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets Measured at Fair Value</b>				
Financial assets at FVPL	<b>₱32,597,501</b>	<b>₱–</b>	<b>₱–</b>	<b>₱32,597,501</b>
Investment properties:				
Land	–	–	10,309,700,807	10,309,700,807
Buildings	–	–	18,669,797,822	18,669,797,822
AFS financial assets:				
Quoted	19,466,515	–	–	16,046,515
<b>Assets for which Fair Values are Disclosed</b>				
Loans and receivables:				
Refundable deposits	₱–	₱100,397,830	₱–	₱100,397,830
<b>Liabilities for which Fair Values are Disclosed</b>				
Installment payable	₱–	₱734,854,056	₱–	₱734,854,056
Deposits from tenants	–	966,794,693	–	966,794,693

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There have been no assets and liabilities transferred between Level 1, Level 2 and Level 3 during the period.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Financial Assets at FVPL*

The fair value of financial assets at FVPL is based on quoted market prices at the reporting date.

*Cash and Cash Equivalents, Receivables, Accounts Payable and Other Current Liabilities, Dividends Payable*

Due to the short-term nature of cash and cash equivalents, receivables other than installment contracts receivable, accounts payable and other current liabilities and dividends payable, their carrying values were assessed to approximate their fair values.

*Installment Contracts Receivable*

The fair value of installment contracts receivable are based on the discounted value of future cash flows using applicable rates for similar instruments.

*Refundable Deposits and Deposits from Tenants*

The fair value of deposits from tenants was based on the present value of estimated future cash flows using PDST-R2 rates at the reporting date.

*AFS Financial Assets*

The fair value of quoted equity securities is based on market bid prices as of the reporting date. The fair value of unquoted equity securities is not reasonably determinable.

*Bank Loans*

The carrying value of the bank loans with variable interest rates approximates their fair value because of recent and quarterly repricing based on market conditions.

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## **11. Financial Risk Management Objective and Policies**

The Group's principal financial instruments comprise of cash and cash equivalents, financial assets at FVPL, loans and receivables, AFS financial assets and other financial liabilities. These are held primarily to finance the Group's operations and capital expenditures. The Group's financial instruments, such as cash and cash equivalents, trade receivables and trade payables, arise directly from the conduct of the Group's operations.

The main risks arising from the use of the financial instruments are interest rate risk, credit risk and liquidity risk.

Risk management is carried out by the Group's management under policies approved by the Board. The Group's management identifies and evaluates financial risks in close cooperation with the Group's operating units.

The main objective of the Group's financial risk management is to minimize the potential adverse effects of the unpredictability of financial markets on the Group's financial performance. The Board provides principles for overall risk management, as follows:

***Interest Rate Risk***

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The cash flows of the Group's bank loans that are exposed to interest rate risk as of March 31, 2017.

Interest rates on all bank loans are based on the higher between the PDST-R2 rate and the BSP overnight borrowing rate.



The Group's interest rate risk management policy focuses on reducing the overall interest expense and exposure to change in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing loans with floating interest rates as it can cause a change in the amount of interest payments.

Interest on financial instruments with floating rates is repriced at intervals of less than one year. Interest on financial instruments with fixed rates is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the tables above are noninterest-bearing and are therefore not subject to interest rate risk. The Group invests excess funds in short-term placements in order to mitigate any increase in interest rate on borrowings.

The following table represents the impact on the Group's income before income tax brought about by reasonably possible change in interest rates, with all other variables held constant, as of March 31, 2017 until its next financial reporting date:

Change in Interest Rate	Effect on Income before Income Tax
<b>Increase by 0.50%</b>	<b>₱46,847,298</b>
<b>Decrease by 0.50%</b>	<b>(₱46,847,298)</b>

There is no other effect on the Group's equity other than those already affecting profit or loss.

#### ***Credit Risk***

Credit risk is the risk that the Group will incur losses because its counterparties failed to discharge their contractual obligations. The Group is exposed to credit risk from its operating activities (primarily trade receivables), including deposits with banks and other financial instruments. The Group has no significant concentration on credit risk.

#### ***Trade Receivables***

Sales of residential condominium units that are on installment basis are supported by post-dated checks from the buyers. Titles to properties sold are not released unless full payment is received. In the case of leasing operation, tenants are subjected to credit evaluation and are required to put up security deposits and pay advance rentals, if necessary. Hotel guest who wish to avail of a credit line are subjected to the normal credit investigation and checking. References are required including review of the customer's financial position and earnings. Approval of a credit line is done by the Financial Controllers and the General Managers. A guest may not be given a line, but special ad hoc arrangements are allowed. It usually requires deposits, prepayments or credit card guarantees as collaterals. Existing credit lines are reviewed annually. The maximum exposure to credit risk at the reporting date is the expected cash flows from installment receivable and carrying value of rent receivable.

#### ***Liquidity Risk***

Liquidity risk is the risk that the Group will not be able to settle or meet its obligations on time or at reasonable prices. The Group maintains sufficient cash and cash equivalents in order to fund its operations. The Group monitors its cash flows and carefully matches the cash receipts from its condominium sales and leasing operations against cash requirements for its construction activities. The Group utilizes its borrowing capacity, if necessary, to further bolster its cash reserves.



The following tables summarize the maturity profile of financial assets compared with the contractual undiscounted payments of financial liabilities in order to provide a complete view of the Group's liquidity as of March 31, 2017:

	2017				Total
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	
<b>Financial Assets</b>					
Financial assets at FVPL	₱34,470,448	₱-	₱-	₱-	₱34,470,448
<b>Loans and receivables:</b>					
Cash and cash equivalents	3,680,877,670	-	-	-	3,680,877,670
Receivables:					
Installment contracts receivable	3,660,978,019	3,170,673,944	236,845,352	-	7,068,497,315
Rent	428,770,915	-	-	-	428,770,915
Related parties	77,878,676	-	-	-	77,878,676
Advances to officers and employees	7,709,703	-	-	-	7,709,703
Interest	1,078,257	-	-	-	1,078,257
Others	39,327,710	-	-	-	39,327,710
	7,931,091,398	3,170,673,944	236,845,352	-	11,338,610,694
AFS financial assets	508,292,842	-	-	-	508,292,842
	8,439,384,240	₱3,170,673,944	₱236,845,352	₱-	₱11,846,903,536
<b>Other Financial Liabilities</b>					
Accounts payable and other current liabilities*	₱3,487,682,331	₱-	₱-	₱-	₱3,487,682,331
Installment payable	177,106,358	580,316,697	60,851,353	-	818,274,408
Bank loans	2,288,983,333	7,531,250,000	3,255,833,333	-	13,076,066,666
Deposits from tenants	45,472,954	209,893,685	633,371,911	235,580,698	1,124,319,248
Accrued employee benefits**	-	-	-	2,302,281	2,302,281
	₱5,999,244,976	₱8,321,460,382	₱3,950,056,597	₱237,882,979	₱18,508,644,934

\* Excluding advanced rental, customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.

\*\* Excluding accrued retirement benefits of ₱28,131,846.

**SHANG PROPERTIES, INC. AND SUBSIDIARIES****AGING OF TRADE RECEIVABLES****As of March 31, 2017**

TENANTS	TOTAL RECEIVABLES	CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS
Mall Tenants	187,594,215	129,633,985	6,877,803	5,325,785	4,405,036	41,351,606
EDSA Shangri-La Hotel & Resort	26,626,925	9,525,740	17,101,185	—	—	—
TECC Tenants	25,763,877	5,754,113	5,387,026	87,383	14,535,356	—
Installment Contracts Receivables & Others	1,600,137,707	1,600,137,707	—	—	—	—
	1,840,122,725	1,745,051,545	29,366,014	5,413,168	18,940,392	41,351,606

Note: Installment Contracts Receivables include both current and long-term portion, and are covered by post-dated checks from customers.



KINSUN ANDREW NG  
VP - Group Controller