



108142018003343

**SECURITIES AND EXCHANGE COMMISSION**

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Industry Classification

Company Type Stock Corporation

**Document Information**

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(Company's Full Name)

A D M I N I S T R A T I O N O F F I C E S H A N G R I - L A  
P L A Z A M A L L , E D S A C O R . S H A W B L V D .  
M A N D A L U Y O N G C I T Y

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

ATTY. FEDERICO G. NOEL, JR.

(Contract Person)

370-2700

(Company Telephone Number)

1 2 3 1  
Month Day  
(Fiscal Year)

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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 : 30 June 2018
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 Administration Office, 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

  
**FEDERICO G. NOEL, JR.**  
Corporate Secretary

Date of Signing: 13 August 2018

## PART 1 – FINANCIAL INFORMATION

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

#### Key Performance Indicators

		June 30 2018	June 30 2017	Change
Turnover	(Php M)	5,897.9	6,290.3	-6.2%
Profit attributable to shareholders	(Php M)	1,247.6	1,283.7	-2.8%
Earnings per share	(Php Ctv)	0.262	0.269	-2.8%
Net asset value per share	(Php)	6.564	6.064	8.2%
Debt to equity ratio	(Ratio)	0.590	0.776	-24.0%

- Turnover consists of sales of residential condominium units, revenue from rental and cinema, hotel operations, and other income. For six (6) months ended June 30, 2018, Shang Properties' revenue decreased by P392.4 million (M) to P5.9 billion (B) from P6.3B revenues during the same period in 2017. Sales of residential condominium units accounted for P2,724.5M or 46% of the total revenue. Revenue from leasing operations amounted to P1,491.2M or 25% of the total revenue and lower by P14.4M from P1,505.6M in the same period last year. Shangri-La at Fort's hotel operations contributed revenue amounting to P1,511.3M, higher by P382.5M from P1,128.8M of the same period last year. Other income decreased by P24.6M.
- Profit attributable to shareholders that pertains to net income from operations after tax amounted to P1,247.6M, lower by P36.1M or -2.8% compared with the same period last year.
- Earnings per share showed a variance of -2.8% to P0.262 from last year's P0.269.
- Net asset value per share is calculated by dividing the total net asset of the Group (Total assets – Total liabilities and equity attributable to non-controlling interest) by the number of shares outstanding. Net asset value per share increased by 8.2% mainly due to additional asset acquisitions and lower liabilities.
- 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 0.590:1 as of June 30, 2018 and 0.776:1 as of June 30, 2017.

## **Financial Condition**

Total assets of the Company amounted to P59.1B, a decrease of P1,345.8M from total assets of P60.4B in December 31, 2017. The following are significant movements in the assets:

- Decrease in cash and cash equivalents by P3.1B is mainly due to repayment of bank loans and additions to investment properties and associates.
- Increase in investment in associates and joint venture by P850.7M is mainly due to the joint venture with Robinson's Land Corporation (RLC). Both RLC and SPI shall each own 50% of the outstanding shares in the joint venture under the name of Shang Robinsons Properties Inc.
- The recognized deferred tax assets decreased by P77.1M mainly due to the recognition of higher percentage of completion of The Rise condominium project.
- Decrease in other noncurrent assets by P42.6M due to amortization of deferred input VAT and return of utility deposits during the period.
- Current ratio is 1.75:1 as of June 30, 2018 from 2.05:1 as of December 31, 2017.

Total liabilities decreased by P2B from P23.9B in 2017 to P21.9B in 2018 mainly due to the following:

- Decrease in accounts payable and other current liabilities by P807.6M is mainly due to the decrease in customer deposits for the period.
- Decrease in bank loans mainly due to repayments amounting to P2.2B during the second quarter of 2018 which was partially offset by availment of short-term loan of P800M.
- Decrease in income tax payable by P89.9M is mainly due to the payment made during the period.
- Decrease in dividends payable by P58.1M is due to the declaration of cash dividend on March 20, 2018 to all shareholders of record as March 31, 2018.
- Increase in accrued employee benefits by P11.8M is mainly due to the accruals made for retirement benefits during the period.
- Increase in advance rental by P141.8M mainly due to payment of advance rent from new tenants of KSA Corporation.
- Decrease in deferred in lease income by P5.1M is 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 June 30, 2018 amounted to P1,247.6M lower by 2.8% from last year's P1,283.7M.

Turnover decreased by P392.4M or 6.2% to P5.9B in 2018 from P6.3B in 2017, mainly due to net effect of the following:

- Decrease in condominium sales by P735.9M mainly due to fewer available units for sale due to completed projects.
- Increase in revenue from hotel operations by P382.5M mainly due to higher occupancy as compared to same period last year.
- Interest income and other income decrease by P24.6M mainly due to lower interest income received during the period, brought about by lower average cash balance.

Total costs and expenses of the Group amounted to P3.8B, lower by P239.3M compared with last year's P4.1B. This was mainly due to the following:

- Decrease in cost of condominium sales by P446.8M is due to lower sales across all projects, particularly Horizon Homes and Shang Salcedo Place as only very few units were left for sale this year.
- Increase in cost of rental and cinema by P26.1M mainly due to higher utility costs, advertising and promotion, janitorial, security and other services and repairs and maintenance cost.
- Increase in cost of hotel operations by P172.3M due to higher occupancy compared to same period last year.
- Increase in taxes and licenses by P46.4M mainly due to higher documentary stamps tax and real property taxes paid during the period.
- Decrease in depreciation by P0.9M mainly due to certain assets that have been fully depreciated.
- Increase in insurance by P0.7M mainly due to additional insurance coverage obtained during the first half of the year.
- Increase in interest and bank charges by P11.4M mainly due to higher average interest rates on loans.

Provision for income tax is lower by P42.7M mainly due to lower taxable income generated during the period as compared with the same period last year.

### **Robust Growth Prospects with Robinson's Land Corporation**

Particulars	Details
Sharing	50:50
Location	McKinley Parkway, Bonifacio Global City in Taguig City
Approx. Lot Area	9,000 sqm.
Total Investment	PhP 10 billion
Land Value per sqm	PhP 550,000 per sqm
Approx. # of Units	428 Residential Units 813 Parking Slots
Floor Area Ratio	9

### **Financial Soundness Indicators**

	End of June 2018	End of December 2017
Current Ratio <sup>1</sup>	1.75:1	2.05:1
Debt-to-equity ratio <sup>2</sup>	0.59:1	0.66:1
Asset-to-equity ratio <sup>3</sup>	1.59:1	1.66:1
	<b>2Q 2018</b>	<b>2Q 2017</b>
Interest rate coverage ratio <sup>4</sup>	12.78:1	14.63:1
Return on assets <sup>5</sup>	4.17%	4.18%
Return on equity <sup>6</sup>	6.77%	7.59%

<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>Annualized net income/average total assets<sup>7</sup>

<sup>6</sup>Annualized net income/average stockholders' equity<sup>7</sup>

<sup>7</sup>Annualized net income = 2Q Net income x 2

Average Total Assets = average total assets as of end of June 2018 and end of June 2017

Average Stockholders' Equity = average stockholders' equity as of end of June 2018 and end of June 2017

**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 will 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 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, 2017.

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 that happened subsequent to June 30, 2018 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 6 of the attached interim financial statement.

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

**Consolidated Financial Statements  
June 30, 2018 and 2017**

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

	Notes	Unaudited June 30 2018	Audited December 31 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	1,980,575,589	5,030,757,380
Financial assets at fair value through profit or loss		42,806,919	45,969,343
Trade and other receivables		3,829,139,195	4,172,582,346
Properties held for sale		6,423,695,867	6,235,573,215
Input tax and other current assets		1,107,304,473	1,055,041,731
<b>Total Current Assets</b>		<b>13,383,522,043</b>	<b>16,539,924,015</b>
<b>Noncurrent Assets</b>			
Investment in associates and joint venture		1,352,596,986	501,935,625
Investment properties	4	31,621,490,007	30,100,203,443
Real estate development projects		235,745,363	235,745,363
Available-for-sale financial assets		513,192,742	513,192,742
Property and equipment	5	11,506,090,041	11,947,734,418
Goodwill		269,870,864	269,870,864
Deferred income tax assets - net		115,649,202	192,738,742
Other noncurrent assets		104,847,400	147,446,504
<b>Total Noncurrent Assets</b>		<b>45,719,482,605</b>	<b>43,908,867,701</b>
<b>TOTAL ASSETS</b>		<b>59,103,004,649</b>	<b>60,448,791,716</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities		5,302,636,054	6,110,250,197
Current portion of:			
Installment payable		582,736,798	636,511,197
Bank loans		1,066,666,666	583,333,333
Deposits from tenants		482,522,355	506,636,400
Deferred lease income		28,137,086	28,137,086
Income tax payable		94,366,033	184,217,378
Dividends payable		95,575,579	37,515,266
<b>Total Current Liabilities</b>		<b>7,652,640,574</b>	<b>8,086,600,857</b>
<b>Non-Current Liabilities</b>			
Accrued employee benefits		64,019,020	52,214,078
Bank loans- net of current portion		5,924,310,691	7,776,139,370
Deferred income tax liabilities - net		7,269,526,406	7,179,085,729
Advance rental - net of current portion		348,505,787	206,667,999
Deposit from tenants - net of current portion		640,948,251	597,630,623
Deferred lease income - net of current portion		21,061,979	26,211,780
<b>Total Noncurrent Liabilities</b>		<b>14,268,372,134</b>	<b>15,837,949,579</b>
<b>Total Liabilities</b>		<b>21,921,012,707</b>	<b>23,924,550,437</b>
<b>Stockholder's Equity</b>			
Share Capital- P1 par value		4,764,058,982	4,764,058,982
Share premium		834,439,607	834,439,607
Treasury shares		(6,850,064)	(6,850,064)
Other components of equity		(149,930,886)	(150,927,698)
Retained earnings		25,677,558,348	25,027,307,247
Equity attributable to non-controlling interest		6,062,715,952	6,056,213,206
<b>Total Equity</b>		<b>37,181,991,939</b>	<b>36,524,241,280</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>59,103,004,649</b>	<b>60,448,791,716</b>

(See accompanying notes to consolidated financial statements)

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

	UNAUDITED FOR THE QUARTER ENDED		UNAUDITED FOR THE SIX (6) MONTHS ENDED	
	30-June-18	30-June-17	30-June-18	30-June-17
<b>REVENUES</b>				
Condominium sales	1,465,296,463	2,767,835,262	2,724,519,405	3,460,471,954
Rental and cinema	771,704,736	798,900,874	1,491,196,223	1,505,621,419
Hotel operations	719,134,089	507,714,804	1,511,287,684	1,128,761,149
	2,956,135,588	4,074,450,939	5,727,003,311	6,094,854,523
<b>COST OF SALES AND SERVICES</b>				
Condominium sales	887,220,602	1,628,958,152	1,619,705,295	2,066,539,110
Rental and cinema	57,043,197	60,219,298	116,386,236	90,286,133
Hotel operations	797,889,831	740,127,391	1,568,264,438	1,395,932,440
	1,742,153,630	2,429,304,841	3,304,355,969	3,552,757,682
<b>GROSS INCOME</b>	<b>1,213,981,658</b>	<b>1,645,146,099</b>	<b>2,422,647,342</b>	<b>2,542,096,841</b>
<b>OPERATING EXPENSES</b>				
General and administrative	127,246,874	169,645,412	299,499,918	348,011,079
Taxes and licenses	56,455,514	32,900,149	144,392,944	97,951,917
Depreciation and amortization	3,326,449	3,664,620	6,712,017	7,567,476
Insurance	503,151	151,576	984,511	276,610
	187,531,988	206,361,757	451,539,390	453,807,083
<b>OTHER INCOME</b>				
Interest income	40,091,635	55,901,675	93,202,841	112,584,118
Foreign exchange gains – net	4,750,612	8,428,330	27,810,790	23,859,093
Other income – net	32,765,655	18,020,991	49,842,680	59,018,860
	77,607,902	82,350,996	170,856,310	195,462,071
<b>INCOME BEFORE SHARE IN PROFIT (LOSS) OF ASSOCIATED COMPANIES</b>	<b>1,104,057,572</b>	<b>1,521,135,338</b>	<b>2,141,964,262</b>	<b>2,283,751,829</b>
<b>SHARE IN LOSSES OF AN ASSOCIATED COMPANY</b>	-	(797,151)	(2,529,643)	(2,487,413)
<b>INTEREST EXPENSE AND BANK CHARGES</b>	<b>83,325,256</b>	<b>65,869,599</b>	<b>167,345,964</b>	<b>155,974,609</b>
<b>INCOME BEFORE TAX</b>	<b>1,020,732,315</b>	<b>1,454,468,588</b>	<b>1,972,088,656</b>	<b>2,125,289,809</b>
<b>PROVISION FOR INCOME TAX</b>	<b>(267,259,790)</b>	<b>(393,945,368)</b>	<b>(508,262,455)</b>	<b>(551,008,276)</b>
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>753,472,526</b>	<b>1,060,523,220</b>	<b>1,463,826,200</b>	<b>1,574,281,533</b>
<b>MINORITY INTEREST</b>	<b>(80,812,443)</b>	<b>(251,208,068)</b>	<b>(216,222,740)</b>	<b>(290,556,132)</b>
<b>NET INCOME</b>	<b>672,660,083</b>	<b>809,315,152</b>	<b>1,247,603,460</b>	<b>1,283,725,399</b>
<b>RETAINED EARNINGS, beg.</b>	<b>25,004,629,866</b>	<b>22,488,682,791</b>	<b>25,027,307,240</b>	<b>22,466,858,147</b>
<b>LESS: CASH DIVIDENDS</b>	<b>268,400</b>	<b>203,171</b>	<b>(597,352,351)</b>	<b>(452,382,432)</b>
<b>RETAINED EARNINGS, end.</b>	<b>25,677,558,348</b>	<b>23,298,201,114</b>	<b>25,677,558,349</b>	<b>23,298,201,114</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>0.14</b>	<b>0.17</b>	<b>0.26</b>	<b>0.28</b>

See accompanying notes to consolidated financial statement

**SHANG PROPERTIES INC. & SUBSIDIARIES**  
**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, 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		-	-	-	(25,227)	-	-	(25,227)
Cash dividends	7	-	-	-	-	(452,382,432)	(104,860,000)	(557,242,432)
Net income for the period		-	-	-	-	1,283,725,399	290,556,132	1,574,281,530
Balance as of June 30, 2017		4,764,058,982	834,439,607	(6,850,064)	(142,040,865)	23,298,201,113	5,607,673,332	34,355,482,106
Balance as of January 1, 2018		4,764,058,982	834,439,607	(6,850,064)	(150,927,698)	25,027,307,247	6,056,213,206	36,524,241,280
Cumulative translation adjustment		-	-	-	996,812	-	-	996,812
Cash dividends	7	-	-	-	-	(597,352,359)	(209,719,994)	(807,072,353)
Net income for the period		-	-	-	-	1,247,603,460	216,222,740	1,463,826,201
Balance as of June 30, 2018		4,764,058,982	834,439,607	(6,850,064)	(149,930,886)	25,677,558,348	6,062,715,952	37,181,991,939

(See accompanying notes to consolidated financial statements)

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

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before income tax	1,972,088,656	2,125,289,805
Adjustment for:		
Interest income	(93,202,841)	(112,584,118)
Interest expense	166,969,219	153,735,443
Depreciation and amortization	6,712,017	7,567,479
Cumulative translation adjustment	996,812	(25,227)
Dividend income	(18,605,804)	(20,004,984)
Change in fair value of financial assets at FVPL	3,162,424	(4,588,015)
Share in loss of associate companies	2,529,643	2,487,412
Unrealized foreign exchange gains - net	(27,810,790)	(23,859,093)
Operating income before working capital changes	2,012,839,335	2,128,018,702
Decrease (increase) in:		
Receivables	343,443,151	(871,091,713)
Properties held for sale	(188,122,652)	1,958,692,885
Input tax and other current assets	(52,262,742)	336,354,881
Increase (decrease) in:		
Accounts payable and other current liabilities	(238,081,202)	(213,698,655)
Deferred lease income	(5,149,801)	(9,704,777)
Accrued employee benefits	11,804,942	(10,345,946)
Net cash generated from operations	1,884,47,030	3,318,226,377
Income taxes paid	(467,437,617)	(456,316,337)
Interest received	94,749,466	113,186,557
<b>Net cash provided by operating activities</b>	<b>1,511,782,879</b>	<b>2,975,096,597</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Investment properties	(1,521,286,564)	(201,804,037)
Property and equipment	(89,614,850)	(656,858,023)
Investment in associates and joint venture	(850,661,363)	(2,312,589)
Decrease in other assets	119,688,645	(2,939,074)
Dividends received	18,605,804	20,004,984
<b>Net cash used in investing activities</b>	<b>(2,323,268,327)</b>	<b>(843,908,739)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan availment, net of debt issue costs	800,000,000	-
Payments of:		
Loan principal	(2,168,495,346)	(1,652,083,333)
Interest	(168,203,337)	(159,949,372)
Cash dividends paid to:		
Stockholders	(539,292,038)	(449,613,835)
Non-controlling interest	(209,719,994)	(104,860,000)
Increase in deposits from tenants	19,203,583	23,646,115
<b>Net cash used in financing activities</b>	<b>(2,266,507,132)</b>	<b>(2,339,860,425)</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>27,810,790</b>	<b>23,859,093</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,050,181,791)</b>	<b>(184,813,474)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>5,030,757,380</b>	<b>4,241,131,012</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>1,980,575,589</b>	<b>4,056,317,538</b>

**SHANG PROPERTIES, INC. AND SUBSIDIARIES**  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE SIX (6) MONTHS ENDED JUNE 30, 2018 AND 2017

**Note 1 - General information**

Shang Properties, Inc. (the "Parent Company"), a corporation duly organized and existing in the Philippines, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 21, 1987 to acquire, own, develop, subdivide, sell, mortgage, exchange, lease or hold for investment, real estate of all kinds.

The Parent Company's registered office address, which is also its principal place of business, is at Administration Office, Shangri-La Plaza Mall, EDSA corner Shaw Boulevard, Mandaluyong City.

The Parent Company and its subsidiaries' (together, the "Group") businesses include property investment and development, hotel operation, real estate management, leasing, mall and carpark operations, and other supplementary businesses.

**Note 2 - Segment information**

The Group's operating businesses are organized and managed according to the nature of the products and services marketed. Each segment represents 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 three main segments as follows:

*(a) Property development*

This business segment pertains to the sale of condominium units.

Shang Properties Realty Corporation ("SPRC") is the developer of The Shang Grand Tower Project (TSGT), located in Makati City, The St. Francis Shangri-La Place Project (TSFSP) and the One Shangri-La Place Project (OSP), both located in Mandaluyong City.

Shang Property Developers, Inc. ("SPDI") is the developer of Shang Salcedo Place Project (SSP), located in Makati City.

The Rise Development Company Inc. ("TRDCI") is the developer of The Rise Makati Project, located in Makati City.

Shang Wack Wack Properties, Inc. ("SWWPI") is the developer of Shang Residences at Wack Wack located in Mandaluyong City.

*(b) Hotel operations*

This business segment pertains to the operations of Shangri-La at the Fort's hotel and residences. Shang Global City Properties, Inc. ("SGCPI") is the developer of Shangri-La at the Fort, Shangri-La Residences and Horizon Homes located in Taguig City.

*(c) Leasing*

This business segment pertains to the rental operations of the Shangri-La Plaza Mall as operated by Shangri-La Plaza Corporation ("SLPC"), The Enterprise Center ("TEC") owned and operated by KSA Realty Corporation and their related carpark operations as owned and operated by SPI Parking Services, Inc. ("SPSI"), respectively. It also includes rental of a portion of the Parent Company's land to EDSA Shangri-La Hotel and Resort, Inc. ("ESHRI") and cinema operations of Shangri-La Plaza Mall.

Other business segments pertain to property management services and operations of real estate entities and other subsidiaries.

Except for the rental revenue from ESHRI, all revenues come from transactions with third parties. There are no revenues derived from a single external customer above 10% of total revenue in 2018 and 2017. There is no need to present reconciliation since measure of segment assets, liabilities and results of operations are consistent with those of the financial statements.

All revenues are from domestic entities incorporated in the Philippines, hence, the Group did not present geographical information required by PFRS 8, *Operating Segments*.

There are no changes in the Group's reportable segment and related strategy and policies in 2018 and 2017.

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended June 30, 2018 are as follows:

	Property Development	Rental and Cinema	Hotel Operations	Others	Total Segments	Eliminations	Consolidated
Revenues:							
Condominium sales	₱2,724,519,405	-	-	-	2,724,519,405	-	2,724,519,405
Rental and cinema	-	1,609,385,734	-	-	1,609,385,734	(118,189,511)	1,491,196,223
Hotel operations	-	-	1,511,287,684	-	1,511,287,684	-	1,511,287,684
Cost of sales and services:							
Condominium sales	(1,619,705,295)	-	-	-	(1,619,705,295)	-	(1,619,705,295)
Rental and cinema	-	(114,604,041)	-	-	(114,604,041)	(1,782,196)	(116,386,237)
Hotel operations	-	-	(1,568,264,438)	-	(1,568,264,438)	-	(1,568,264,438)
Gross income	1,104,814,109	1,494,781,693	(56,976,754)	-	2,542,619,048	(119,971,707)	2,422,647,341
Other income	831,531,835	821,343,272	-	81,663,902	928,247,757	(878,405,077)	49,842,680
Staff costs	(40,972,441)	(168,935,689)	-	(4,126,603)	(214,034,733)	20,552,652	(193,482,080)
General and administrative expenses	(28,472,373)	(73,775,647)	-	(3,719,818)	(105,967,838)	-	(105,967,838)
Taxes and licenses	(81,260,480)	(57,609,194)	-	(5,523,270)	(144,392,944)	-	(144,392,944)
Depreciation and amortization	(89,234)	(94,972,075)	-	(477,798)	(95,539,107)	88,827,090	(6,712,017)
Insurance	(776,364)	(190,403)	-	(17,743)	(984,511)	-	(984,511)
Segment results	978,483,799	1,920,641,957	(56,976,754)	67,798,671	2,909,947,673	(888,997,042)	2,020,950,630
Interest income	84,268,429	8,409,089	-	525,322	93,202,841	-	93,202,841
Foreign exchange gains – net	21,437,880	6,334,218	-	(107,822,448)	(80,040,350)	107,851,140	27,810,790
Share in net income of associates and joint venture	-	-	-	(2,529,643)	(2,529,643)	-	(2,529,643)
Interest expense and bank charges	(165,745)	(64,430,491)	-	(3,944)	(167,345,964)	-	(167,345,964)
Provision for income tax	(293,023,169)	(206,501,664)	-	(3,991,427)	(503,516,260)	(4,746,195)	(508,262,455)
Net income for the year	791,001,194	1,664,463,110	(56,976,754)	(46,023,470)	2,249,718,296	(785,892,097)	1,463,826,199
Segment assets	12,066,049,718	41,629,419,855	13,901,945,451	(7,157,303,471)	73,944,718,494	(16,194,310,835)	57,750,407,661
Associate companies	-	-	-	1,352,596,988	1,352,596,988	-	1,352,596,988
Total assets	12,066,049,718	41,629,419,855	13,901,945,451	8,509,900,457	75,297,315,482	(16,194,310,835)	59,103,004,649
Segment liabilities	6,846,899,913	12,839,265,953	5,450,299,709	6,016,821,758	31,153,287,333	(9,232,274,627)	21,921,012,707
Capital expenditures for the year	-	24,515,082	65,099,768	-	89,614,850	-	89,614,850

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

	Property			Development		Rental and Cinema	Hotel Operations	Others	Total Segments	Eliminations	Consolidated
Revenues:											
Condominium sales				₱8,192,197,299		₱-		₱-	₱8,192,197,299	₱-	₱8,192,197,299
Rental and cinema				-		3,213,206,569		-	3,213,206,569	(231,885,155)	2,951,321,414
Hotel operations				-		-	2,596,696,685	-	2,596,696,685	-	2,596,696,685
Cost of sales and services:											
Condominium sales				(4,726,826,668)		-		-	(4,726,826,668)	-	(4,726,826,668)
Rental and cinema				-		(218,799,404)		-	(218,799,404)	(4,159,029)	(222,938,433)
Hotel operations				-		-	(2,658,648,660)	-	(2,658,648,660)	-	(2,658,648,660)
Gross income				3,465,370,361		2,994,427,165	(61,951,975)	-	6,397,845,821	(236,044,184)	6,161,801,637
Gain on fair value adjustments of investment properties				(440,547,000)		559,703,983	-	1,473,390,469	1,592,547,452	(932,380,223)	660,167,229
Other income				82,157,479		33,172,247	-	2,010,586,242	2,125,915,968	(1,960,592,359)	165,323,609
Staff costs				(142,992,270)		(319,727,957)	-	(10,342,898)	(473,063,125)	30,657,241	(442,405,884)
General and administrative expenses				(190,912,048)		(295,090,408)	(322,975,081)	(2,160,519)	(811,138,056)	(811,138,056)	(570,799,612)
Taxes and licenses				(95,895,508)		(90,761,302)	-	(1,515,358)	(188,172,168)	-	(188,172,168)
Depreciation and amortization				(7,809,935)		(345,553,888)	-	(34,505)	(353,397,828)	332,969,055	(20,428,773)
Insurance				(200,697)		(782,578)	-	(10,803)	(994,078)	-	(994,078)
Segment results				2,669,170,382		2,535,387,262	(384,927,056)	3,469,912,628	8,289,543,986	(2,525,052,026)	5,764,491,960
Interest income				211,539,790		18,848,178	-	664,111	231,052,079	-	231,052,079
Foreign exchange gains – net				2,794,395		22,334,009	-	(4,665,286)	20,463,118	4,666,892	25,130,010
Share in net income of associates and joint venture				-		-	-	(4,099,987)	(4,099,987)	-	(4,099,987)
Interest expense and bank charges				(188,570,012)		(28,438,846)	-	(114,954,005)	(331,962,863)	-	(331,962,863)
Provision for income tax				(756,502,288)		(531,339,659)	-	(465,441,298)	(1,753,283,245)	288,754,009	(1,464,529,236)
Net income for the year				₱1,938,433,037		₱2,016,790,944	(₱384,927,056)	₱2,881,416,163	₱6,451,713,088	₱(2,231,631,125)	₱4,220,081,963
Segment assets				₱11,729,438,058		₱28,087,222,598	₱11,554,781,316	₱9,088,747,020	₱60,460,188,992	(₱513,332,901)	₱59,946,856,091
Associate companies				-		-	-	501,935,625	501,935,625	-	501,935,625
Total assets				₱11,729,438,058		₱28,087,222,598	₱11,554,781,316	₱9,590,682,645	₱60,962,124,617	(₱513,332,901)	₱60,448,791,716
Segment liabilities				₱6,978,354,123		₱10,899,297,278	₱7,316,184,909	₱6,405,705,759	₱31,599,542,069	(₱7,674,991,633)	₱23,924,550,436
Capital expenditures for the year				₱599,206		₱483,478,274	₱25,132,508	₱100,622	₱509,610,610	₱-	₱509,610,610

### **Note 3 - Cash and cash equivalents**

Cash and cash equivalents as at June 30, 2018 and December 31, 2017 consist of:

	2018	2017
Cash on hand	23,924,053	27,236,204
Cash in banks	779,475,274	352,515,924
Cash equivalents	1,177,176,261	4,651,005,252
	1,980,575,588	5,030,757,380

Cash in banks earned an average interest at respective bank deposit rates of 0.25% in 2018 and 2017.

### **Note 4 - Investment properties**

Details of investment properties as at June 30 and their movements during the period are as follows:

	Land	Building	Total
January 1, 2017	10,309,700,807	18,669,797,822	28,979,498,629
Gain (Loss) on fair value adjustment	1,482,231,724	(822,064,495)	660,167,229
Capitalized subsequent expenditure	2,223,950	465,078,635	467,302,585
Transfer to properties held for sale	-	(6,765,000)	(6,765,000)
December 31, 2017	11,794,156,481	18,306,046,962	30,100,203,443
Additions to investment property	500,500,000	-	500,500,000
Additions due to full acquisition of subsidiary	713,000,000	-	713,000,000
Capitalized subsequent expenditures	251,888,000	55,898,564	307,786,564
June 30, 2018	13,259,544,481	18,361,945,526	31,621,490,007

The Group's investment properties located in in Mandaluyong City and Makati City include parcels of land and buildings held for office and retail leases and other parcels of land held for capital appreciation. These properties are being leased out to subsidiaries and third parties.

As at December 31, 2017, the fair values of the properties are based on valuations performed by an independent external appraiser engaged by the management. The valuation models are in accordance with that recommended by the International Valuation Standards Committee.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The fair value measurements for investment properties have been categorized as Level 3 for parcels of land and building properties. The current use of these properties is their highest and best use.

## **Note 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, 2018	₱5,644,902,257	₱22,378,809	₱6,280,453,352	₱11,947,734,418
Additions	56,403,874	1,014,747	32,196,229	89,614,850
Depreciation	(490,382,185)	(2,909,636)	(37,967,406)	(531,259,227)
Reclassification	—	—	—	—
Net book value as at				
June 30, 2018	<b>₱5,210,923,946</b>	<b>₱20,483,920</b>	<b>₱6,274,682,175</b>	<b>₱ 11,506,090,041</b>

## **Note 6 - Financial risk and capital management**

### 6.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's management under policies approved by its Board of Directors. These policies cover financing structure, foreign exchange and interest rate risk management, guarantees and credit support, as well as treasury control framework. There are no changes in the Group's risk management plans as at June 30, 2018 and for the year ended December 31, 2017.

#### 6.1.1 Market risk

##### *(a) Foreign exchange risk*

The Group's exposure on currency risk is minimal and limited only to foreign currency denominated cash in banks and cash equivalents. Changes in foreign currency exchange rates of these assets are not expected to have a significant impact on the financial position or results of operations of the Group.

The Group's foreign currency denominated cash in banks and cash equivalents as at and net foreign exchange gains for the period ended June 30, 2018 and December 31, 2017.

##### *(b) Price risk*

The Group's exposure to price risk is minimal and limited only to financial assets at fair value through profit or loss and available-for-sale financial assets presented in the consolidated statement of financial position. Changes in market prices of these financial assets are not expected to have a significant impact on the financial position or results of operations of the Group.

*(c) Cash flow and fair value interest rate risk*

Interest rate risk refers to risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest-bearing financial instruments include bank loans (Note 17). Interest rates on bank loans of SLPC and SGCPI are based on the higher between the PDST-R2 rate plus 0.75% per annum and the BSP overnight borrowing rate. The Parent Company's bank loan has fixed interest 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 long term 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 are non-interest 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 sensitivity analysis has been determined based on the exposure to interest rates at the end of each reporting period. The sensitivity rate in the analysis is the same rate used in reporting interest rate risk internally to key management personnel and represents the Group's best estimate the reasonably possible change in interest rates.

**6.1.2 Credit risk**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from cash deposits with banks, as well as credit exposure to customers and suppliers.

Exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets. The Group has no significant concentration on credit risk.

The table below shows the credit quality of significant financial assets (i.e., cash and cash equivalents, and trade and other receivables) as at June 30, 2018 and December 31, 2017:

	Fully performing	Past due but not impaired	Impaired	Total
2018				
Current assets				
Cash and cash equivalents	1,956,651,535	-	-	1,956,651,535
Trade and other receivables	2,502,379,350	1,326,759,845	7,349,691	3,836,488,886
Non-current assets				
Refundable deposits	64,191,976	-	-	64,191,976
	4,523,222,861	1,326,759,845	7,349,691	5,857,332,397
2017				
Current assets				
Cash and cash equivalents	5,003,521,176	-	-	5,003,521,176
Trade and other receivables	2,307,392,518	1,260,804,285	12,252,379	3,580,449,182
Non-current assets				
Refundable deposits	86,434,310	-	-	86,434,310
	7,397,348,004	1,260,804,285	12,252,379	8,670,404,668

Trade and other receivables exclude advances to contractors and suppliers.

*(a) Cash and cash equivalents*

Credit risk from balances with banks is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties to mitigate financial loss through counterparty's potential failure to make payments.

*(b) Receivables*

There is no concentration of credit risk with respect to receivables since the Group has a large number of counterparties involved. The Group's maximum credit risk exposure on receivables is equal to the carrying amount in the consolidated statement of financial position excluding advances to contractors and suppliers.

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 case of leasing operations, tenants are subjected to credit evaluation and are required to put up security deposits and pay advance rentals, if necessary. For the hotel operations, hotel guests 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 performed by the Financial Controller and the General Manager. 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 credit exposure on due from related parties is considered to be minimal as there is no history of defaults and collections are expected to be made within 30 to 60 days. The maximum amount exposed to credit risk on due from related parties is equal to the carrying amount in the

consolidated statement of financial position. The balances due from related parties are considered as high grade financial assets.

None of the financial assets that are fully performing has been renegotiated in 2018 and 2017.

The credit quality of receivables that are neither past due nor impaired can be assessed by reference to internal credit ratings (if available) or to historical information about counterparty default rates.

As at June 30, 2018, receivables of P7,349,691 (2017 – P12,252,379) are impaired. These receivables were fully provided for with an allowance for impairment. The individually impaired receivables mainly relate to counterparties which are in unexpectedly difficult economic situations and considered as satisfactory grade financial assets.

The carrying amounts of cash and cash equivalents, and trade and other receivables as at June 30, 2018 and December 31, 2017 approximate their fair values due to the short maturities and nature of such items.

#### *(c) Refundable deposits*

Refundable deposits include cash required from the Group for the on-going construction and utilities maintenance. This is refundable at the end of the lease term. Refundable deposits are reflected at their carrying amounts which are assumed to approximate their fair values. Considering the balance and average term of outstanding lease arrangements, management believes that the impact of discounting is not significant.

#### 6.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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 operations against cash requirements for its operations. The Group utilizes its borrowing capacity, if necessary, to further bolster its cash reserves.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

	0 - 90 days	91 - 180 days	181 - 360 days	Total
At June 30, 2018				
Bank loans	99,999,998	883,333,334	83,333,334	1,066,666,666
Accounts payable and other current liabilities*	2,964,719,289	397,553,016	210,066,618	3,572,338,923
Deposits from tenants	-	-	482,522,355	482,522,355
Installment payable	159,127,799	159,127,799	264,481,200	582,736,798
Dividends payable	58,060,313	37,515,266	-	95,575,579
Future interest payable	36,820,100	51,212,927	139,173,643	227,206,670
	3,318,727,499	1,528,742,234	1,179,577,150	6,027,046,991
At December 31, 2017				
Bank loans	183,333,333	133,333,333	266,666,667	583,333,333
Accounts payable and other current liabilities*	3,104,802,009	-	210,066,618	3,314,868,627
Deposits from tenants	-	-	506,636,400	506,636,400
Installment payable	159,127,799	159,127,799	318,255,599	636,511,197
Dividends payable	-	37,515,266	-	37,515,266
Future interest payable	70,977,275	66,778,637	269,201,981	406,957,893
	3,518,240,416	396,755,035	1,570,827,265	5,485,822,716

*\*excluding advance rental, excess billing over revenue, customers' deposits, reservation payable, output VAT, deferred output VAT and payable to government agencies*

## 6.2 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating, comply with externally imposed capital requirements, and maintain healthy capital ratios in order to support its business and maximize shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in the Group's strategies and policies during 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt, including long-term loan less cash and cash equivalents, divided by capital. Capital pertains to total equity less non-controlling interest. The gearing ratio as at June 30, 2018 and December 31, 2017 is presented below:

	2018	2017
Net debt		
Long-term loan	6,990,977,357	8,359,472,703
Less: cash and cash equivalents	1,980,575,589	5,030,757,380
	5,010,401,768	3,328,715,323
Capital		
Total equity	37,181,991,939	36,524,241,280
Less: Non-controlling interest	6,062,715,952	6,056,213,206
	31,119,275,987	30,468,028,074
Gearing ratio	16.10%	10.93%

The Group was able to meet its capital management objectives.

### 6.3 Fair value measurement

The Group follows the fair value measurement hierarchy to disclose the fair value measurements of its financial instruments. The table below summarizes the fair value measurement hierarchy of the Group's assets and liabilities at June 30:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
2018				
<i>Assets measured at fair value</i>				
Financial assets at fair value through profit or loss	42,806,919	-	-	42,806,919
Investment properties:				
Land	-	-	13,259,544,481	13,259,544,481
Buildings	-	-	18,361,945,526	18,361,945,526
AFS financial assets:				
Quoted	24,352,000	-	-	24,352,000
<i>Assets for which fair values are disclosed</i>				
Loans and receivables				
Refundable deposits	-	64,191,976	-	64,191,976
<i>Liabilities for which fair values are disclosed</i>				
Installment payable	-	582,736,798	-	582,736,798
Deposits from tenants	-	1,123,470,606	-	1,123,470,606
	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
2017				
<i>Assets measured at fair value</i>				
Financial assets at fair value through profit or loss	45,969,343	-	-	45,969,343
Investment properties:				
Land	-	-	11,794,156,481	11,794,156,481
Buildings	-	-	18,306,046,962	18,306,046,962
AFS financial assets:				
Quoted	24,352,000	-	-	24,352,000
<i>Assets for which fair values are disclosed</i>				
Loans and receivables				
Refundable deposits	-	86,434,310	-	86,434,310
<i>Liabilities for which fair values are disclosed</i>				
Installment payable	-	636,511,197	-	636,511,197
Deposits from tenants	-	1,104,267,023	-	1,104,267,023

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 among Level 1, Level 2 and Level 3 during 2018 and 2017.

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:

*(a) Financial assets at fair value through profit or loss*

The fair value of financial assets at fair value through profit or loss is based on quoted market prices at the reporting date.

*(b) Cash and cash equivalents, trade and other receivables, accounts payable and other current liabilities, accrued employee benefits and dividends payable*

Due to the short-term nature of cash and cash equivalents, trade and other receivables, accounts payable and other current liabilities, dividends payable and accrued employee benefits, their carrying values were assessed to approximate their fair values.

*(c) Installment contracts receivable*

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

*(d) 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 applicable market rates at the reporting date. Discount ranges from 1.78% to 8.18% as at December 31, 2017.

*(e) Available-for-sale financial assets*

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

*(f) 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.

**Note 7 - Significant accounting judgments, estimates and assumptions**

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results. The estimates and assumptions applied by the Group and which may cause adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## **7.1 Critical accounting estimates and assumptions**

### *(a) Determination of fair values of investment properties*

The fair values of investment properties are determined by independent real estate valuation experts using recognized valuation techniques. In some cases, fair values are determined based on recent real estate transactions with similar characteristics and in the location of those of the Company's assets. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

- a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- c) stabilized net operating income based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using pre-tax discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows.

Fair value gain on investment property represents significant amounts both in value of property and income. Any +/- 1% change in fair value per square meter increases/decreases total assets and income before tax.

### *(b) Useful lives of property and equipment*

The useful life of each item of the Group's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimate is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment would increase the recorded operating expenses and decrease non-current assets.

In 2018 and 2017, there were no changes in the estimated useful lives of property and equipment. As at June 30, 2018, property and equipment have a carrying value of P11.51 billion (2017 - P11.95 billion).

### *(c) Estimation of percentage-of-completion of the Group's projects*

The Group's revenue and cost recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from condominium sales, recognized based on the percentage-of-completion, are

measured principally by reference to the estimated completion of a physical proportion of the contract work. The total project costs are estimated by the project development engineers and are independently reviewed by the Group's third party consultants. At each reporting date, these estimates are reviewed and revised to reflect the current conditions, when necessary.

The Group has following on-going projects with its percentage of completion as at June 30, 2018 and December 31, 2017:

Projects	2018	2017
Horizon Homes at Shangri-La at the Fort	100%	98%
Shang Salcedo Place	100%	95%
The Rise Makati	48%	35%

*(d) Determining retirement benefit obligation*

The Group maintains a qualified defined benefit retirement plan. The calculations of retirement costs of the Group are dependent upon the use of assumptions, including discount rates, expected return on plan assets, interest cost, future salary increases, benefits earned, mortality rates, the number of employee retirements, the number of employees electing to take lump-sum payments and other factors.

Actual results that differ from assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Group believes that the assumptions used are reasonable, differences in actual experience or changes in assumptions may materially affect the Group's retirement obligation and future expense.

In determining the long-term rates of return, the Group considers the nature of the plans' investments, an expectation for the plans' investment strategies, historical rates of return and current economic forecasts. The Group evaluates the expected long-term rate of return annually and adjusts such rate as necessary.

## **7.2 Critical accounting judgments**

*(a) Distinction between properties held for sale, investment properties, and property and equipment*

The Group determines whether a property is to be classified as a property held for sale, an investment property, or property and equipment through the following:

- Properties held for sale comprise properties that are held for sale in the ordinary course of business. These are condominium units that the Group acquired or developed and intends to sell.
- Investment properties comprise land and buildings which are not occupied, substantially for use by, or in the operations of, nor for sale in the ordinary course of business of the Group, but are held primarily to earn rental income or capital appreciation.
- Property and equipment generate cash flows that are attributable not only to them but also to the other assets used in the operations of the Group.

In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group.

Some properties comprise a portion that is to earn rentals or for capital appreciation and another portion that is held for use in the operation or for administrative purposes. If these portions cannot be sold separately at the reporting date, the property is accounted for as an investment property only if an insignificant portion is held for use in the operation or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

*(b) Revenue recognition*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on the following, among others:

- Collectability of contract price

Collectability of the contract price is demonstrated by the buyer's commitment to pay which, in turn, is supported by substantial initial and continuing investments that gives the buyer a sufficient stake in the property that risk of loss through default motivates the buyer to honor his obligation. Collectability is also assessed by considering factors such as the credit standing of the buyer, age, and location of the property.

For condominium sales, in determining whether the contract prices are collectible, the Group considers that initial and continuing investments by the buyer of about 20% would demonstrate the buyer's commitment to pay.

- Stage of completion of the condominium

The Group commences the recognition of revenue from sale of uncompleted condominium where the POC method is used when the construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished).

*(c) Assessing significant influence over associates*

The Group determined that it exercises significant influence over all its associates by considering, among others, its ownership interest (holding 20% or more than of the voting power in the investee), representation on the board of directors and participation in policy-making processes of the associates, and other contractual terms.

*(d) Estimation of net realizable value of properties held for sale*

Properties held for sale are carried at the lower of cost and net realizable value. The net realizable value of completed condominium units is the estimated selling price of condominium unit less estimated costs necessary to make the sale. While the net realizable value of condominium units under construction is the estimated selling price of a condominium unit less estimated costs to complete the construction, estimated time value of money to the date of completion and estimated costs necessary to make the sale.

*(e) Recoverability of investments in associates*

The Company's investments in associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable.

Given profit projections upon completion of investment property development project of SLPI, the Group has assessed that there are no impairment indicators with respect to the investments in associates as at June 30, 2018 and December 31, 2017.

*(f) Impairment of goodwill*

The Group reviews the goodwill annually for impairment and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Goodwill is monitored by management at SGCPI's business level (lowest level of CGU identified) following its acquisition by Parent Company.

As at June 30, 2018 and December 31, 2017, based on management's assessment and judgment, there is no indication of impairment of goodwill since the recoverable amount of the CGU is higher than the carrying value.

As at December 31, 2017 and 2016, the recoverable amount of SGCPI's hotel business was determined based on value in use calculation (using Level 3 inputs) and require the use of certain assumptions. In computing for the value in use, the management has employed the discounted cash flow method in computing for the value in use. The calculations use cash flow projections based on financial forecasts covering a five-year period beginning 2018.

The cash flow forecasts reflect management's expectations of revenue growth, operating costs and margins based on past experience and outlook, consistent with internal measurements and monitoring.

Pre-tax adjusted discount rate applied to the cash flow forecasts is derived using the weighted average cost of capital as at December 31, 2017.

The following are the key assumptions used:

Pre-tax adjusted discount rate	9.00%
Terminal growth rate	4.50%

The Group's impairment review includes an impact assessment of changes in discount rate used for value in use calculations. If the discount rate would increase/decrease by 1%, the estimated fair value of CGU would have been lower/higher by P3.06 billion/P4.81 billion. Based on this sensitivity analysis, management concluded that no reasonable change in base case assumptions would cause the carrying amount of SGCPI's business to exceed its recoverable amount.

*(g) Impairment of non-financial assets*

The Group reviews its non-financial assets, such as properties held for sale, investments in associates, real estate development projects, property and equipment and investment properties, for any indicator of impairment in value. This includes considering certain factors such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. If indicators of impairment have been identified, the Group determines the recoverable amount of the asset, which is the higher of the asset's fair value less costs to sell and value in use.

Given historical profitable operations and profit projections, the Group has assessed that there are no impairment indicators with respect to the non-financial assets as at June 30, 2018 and December 31, 2017.

*(h) Classification of leases as operating lease*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

*(i) Income taxes*

A certain degree of judgment is required in determining the provision for income taxes, as there are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognizes liabilities for tax audit issues when it is probable. The liabilities are based on estimates whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Further, the Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The Group expects to generate sufficient future taxable profits to allow all of its recognized deferred tax assets to be utilized

*(j) Contingencies*

The Parent Company and SLPC are currently involved in various legal proceedings. The estimates of the probable costs for the resolution of these claims have been developed in consultation with the outside legal counsel handling the defense in these matters and are based upon analyses of potential reports. Based on management's assessment, these proceedings will not have a material effect on the Group's financial position and performance.

## **Note 8- Summary of significant accounting and financial reporting policies**

### **8.1 Basis of preparation**

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, investment properties and available-for-sale financial assets.

The preparation of consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

### **8.2 Changes in accounting policy and disclosures**

#### *(a) New and amended standards adopted by the Group*

The Group has applied the amendment on disclosure initiative of PAS 7, 'Statement of cash flows', effective for the annual periods beginning January 1, 2017. The adoption of the amendments did not have a material impact on the consolidated financial statements of the Group.

#### *(b) New standards, amendments and interpretations not yet adopted*

The following new accounting standards and interpretations are not mandatory for December 31, 2017 reporting period and have not been early adopted by the Group:

- PFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2018)

PFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

#### *Classification and measurement of financial assets*

##### *Investments in debt instruments*

Under PFRS 9, a financial asset should be subsequently measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset should be subsequently measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

If the financial asset is measured at FVOCI, all movements in the fair value should be taken through OCI, except for the recognition of impairment gains or losses, interest revenue in line with the effective interest method and foreign exchange gains and losses, which are recognized in profit or loss.

If the financial asset does not pass the business model assessment and SPPI criteria, or the fair value option is applied, it is measured at fair value through profit or loss (FVTPL). This is the residual measurement category.

#### *Investments in equity instruments*

Under PFRS 9, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL, with dividend income recognized in profit or loss.

For all other equities within the scope of PFRS 9, the standard allows entities to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss (except for equities that give an investor significant influence over an investee according to PAS 28, which can only be accounted for under PFRS 9 if they are measured at FVTPL). Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of an investment, in which case they are recognized in OCI. There is no recycling of amounts from OCI to profit or loss - for example, on sale of an equity investment - nor are there any impairment requirements. The Group however, can transfer the cumulative gain or loss within equity.

The initial results of the impact assessment done by the Group on the classification and measurement of financial assets follow:

- AFS equity securities will likely be measured still at FVOCI following the irrevocable election available under PFRS 9.
- All other financial assets classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9.

### *Classification and measurement of financial liabilities*

PFRS 9 will have no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The de-recognition rules have been transferred from PAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

### *Impairment of financial assets*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under PAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects no change in the allowance for impairment losses provided amounting to P7,349,690 as at June 30, 2108 and P12,252,379 as at December 31, 2017.

### *Hedge accounting*

The new hedge accounting rules under PFRS 9 will align the accounting for hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new hedge accounting rules will not have a significant impact on the Group as there are no formal hedge accounting relationships as of June 30, 2108 and December 31, 2017.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- PFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after January 1, 2018)

PFRS 15 will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

In 2016, PIC Q&A 2016-04, 'Application of PFRS 15 "Revenue from contracts with customers" on sale of residential properties under pre-completion contracts', was issued in conjunction with PFRS 15. This clarifies that sales of residential properties under pre-completion stage (based on specific fact patterns presented in the interpretation) meet the

criteria for revenue recognition over time. This applies to sale of a residential property unit under pre-completion stage (i.e., construction is on-going or has not yet commenced) by a real estate developer that enters into a Contract to Sell (CTS) with a buyer, and the developer has determined that the contract is within the scope of PFRS 15 by satisfying all the criteria for revenue recognition in PFRS 15. The Group assesses that for its revenue from condominium sales, the same policy, will be applied upon adoption of the new standard and PIC Q&A.

The adoption of PFRS 15 will not have a material impact on the other revenue transactions of the Group.

- PFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019)

PFRS 16 will replace the current guidance in PAS 17, Leases. PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases. The Group has initially assessed that the adoption of the new standard will not have an impact on the consolidated financial statements as it is mainly the lessor in the existing lease agreements. While some differences may arise as a result of the new guidance on the definition of the lease, the Group has opted to apply such guidance only to contracts entered into (or changed) on or after the date of initial application. Existing lease contracts will not be reassessed and such expedient will be consistently applied to all contracts.

Likewise, the following amendments are not mandatory for December 31, 2017 reporting period and have not been early adopted by the Group:

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PFRS 15 - Clarifications to PFRS 15
- Amendments to PFRS 4 - Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts
- Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions.

The adoption of the above amendments are not expected to have a material impact on the financial statements of the Group.

### **8.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2018 and December 31, 2017. The subsidiaries' financial statements are prepared for the same reporting year as the Parent Company. The Group uses uniform accounting policies, any difference between subsidiaries and the Parent Company are adjusted properly.

The Group is composed of the subsidiaries listed below:

Nature and name of entity	Ownership %		
	2018	2017	2016
Property development:			
Shang Properties Realty Corporation (SPRC)	100	100	100
Shang Property Developers, Inc. (SPDI)	100	100	100
The Rise Development Corporation, Inc. (TRDCI)	100	100	100
Shang Wack Wack Properties, Inc. (SWWPI)	100	100	100
Hotel operation:			
Shang Global City Properties, Inc. (SGCPI)	60	60	60
Leasing:			
SPI Parking Services, Inc. (SPSI)	100	100	100
Shangri-la Plaza Corporation (SLPC)	100	100	100
KSA Realty Corporation (KSA)	70.04	70.04	70.04
Real estate:			
Ivory Post Properties, Inc. (IPPI)	100	100	100
KPPI Realty Corporation (KRC)	100	100	100
Martin B. Properties, Inc. (MBPI)	100	100	100
New Contour Realty, Inc. (NCRI)	100	100	100
Perfect Sites, Inc. (PSI)	100	100	100
Shang Fort Bonifacio Holdings, Inc. (SFBHI)	100	100	100
Shang Global City Holdings, Inc. (SGCHI)	100	100	100
Property management:			
KPPI Management Services Corporation (KMSC)	100	100	100
Shang Property Management Services, Inc. (SPMSI)	100	100	100
Other supplementary business:			
Gipsey, Ltd. (Gipsey)	100	100	100
Silver Hero Investments Limited (SHIL)	100	100	100
EPHI Logistics Holdings, Inc. (ELHI)	60	60	60

Except for Gipsey and SHIL, which were incorporated in the British Virgin Islands (BVI) and use Hong Kong dollars (HK\$) as their functional currency, all the other subsidiaries were incorporated and registered in the Philippines which use Philippine Peso as their functional currency.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Parent Company do not differ from the proportion of ordinary shares held.

#### *(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. These are deconsolidated from the date that control ceases.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial reporting and operating policies by virtue of de facto control. De facto control may arise in circumstances where the size Group's voting rights

relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in

profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

*(d) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received are treated as a reduction to the investment in the period wherein the right to receive such distribution arises. The Group's investments in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share in net earnings of associates' in the consolidated statement of total comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognized in profit or loss. Investment in subsidiaries and associates are derecognized upon disposal. Gains and losses on disposals of these investments are determined by comparing the proceeds with the carrying amount and are included in profit or loss.

#### **8.4 Cash and cash equivalents**

Cash includes cash on hand and in banks that earns interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known

amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of change in value.

## **8.5 Financial instruments**

### **8.5.1 Classification**

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

The Group classifies its financial assets and liabilities according to the categories described as follows.

#### *(a) Financial assets*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Group holds financial assets classified as at fair value through profit or loss, loans and receivables and available-for-sale financial assets as at June 30, 2018 and December 31, 2017.

#### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, these are classified as non-current.

The Group's investments in listed equity shares are classified under this category.

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months after the reporting date, which are then classified as non-current assets.

The Group's loans and receivables comprise cash and cash equivalents, trade and other receivables (excluding advances to contractors and suppliers) and refundable deposits classified under other non-current assets in the consolidated statement of financial position.

#### *(a) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless management intends to dispose of the investment within 12 months from the reporting date. The Group's investments in various listed and unlisted local entities are classified under this category.

*(b) Financial liabilities*

Financial liabilities are classified in the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value); and financial liabilities at amortized cost.

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

The Group's accounts payable and other current liabilities (excluding advanced rental, excess billing over revenue, customers' deposits, reservation payable, output VAT, deferred output VAT and payable to government agencies), installment payable, deposits from tenants, dividends payable, accrued employee benefits (excluding retirement benefits) and bank loans are classified under financial liabilities at amortized cost.

## 8.5.2 Recognition and measurement

*(a) Initial recognition and measurement*

Regular purchases and sales of financial assets are recognized on the trade date (the date on which the Group commits to purchase or sell the asset). Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs.

Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

The Group recognizes a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provision of the instrument. Financial liabilities at amortized cost are initially recognized at fair value.

*(b) Subsequent measurement*

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Other financial liabilities are measured at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

Gains or losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, including interest and dividend income and interest expense, are presented in profit or loss within other income in the consolidated statement of total comprehensive income in the period in which these arise. Dividend income from financial assets at fair value through profit and loss is recognized in profit or loss as part of other income when the Group's right to receive payment is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in profit or loss within other income in the consolidated statement of total comprehensive income.

#### 8.5.3 Day 1 difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the profit or loss unless it qualifies for recognition as some other type of asset. In cases where the data used are not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference.

#### 8.5.4 Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *(a) Financial assets at fair value through profit and loss and available-for-sale financial assets*

In the case of equity investments classified as financial assets at fair value through profit and loss and available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. Generally, the Group treats 20% or more as 'significant' and greater than 12 months as 'prolonged'. If any of such evidence exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss.

##### *(b) Loans and receivables*

For loans and receivables category, the Group first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant using the criteria above. If the Group determines that no objective evidence of impairment exists for an individually assessed

receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss. Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against other general and administrative expenses in the consolidated statement of total comprehensive income.

#### 8.5.5 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged or is cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### 8.5.6 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty. There are no offsetting arrangements as at June 30, 2018 and December 31, 2017.

### 8.6 Trade and other receivables

Trade receivables arising from regular sales with credit term of 30 to 60 days and other receivables are recognized initially at fair value and subsequently measured at cost using the effective interest method, less any provision for impairment.

A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the trade and other receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade and other receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of total comprehensive income within other general and administrative expenses. When a trade and other receivable is uncollectible, it is written-off against the allowance account for receivables. Subsequent recoveries of amounts previously written-off are credited against other general and administrative expenses in the consolidated statement of total comprehensive income.

## **8.7 Properties held for sale**

Properties held for sale are properties being constructed or acquired for sale in the ordinary course of business, rather than for rental or capital appreciation, and are carried at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and estimated costs to sell.

Cost of condominium units held for sale represents accumulated costs of the unsold units of the completed projects. Cost includes those directly attributable to the construction of the projects such as cost of land, direct materials, borrowing costs, professional and consultancy fees, and project management costs, which are allocated to the unsold units.

Cost of construction in-progress represents the accumulated costs for the construction and development of the ongoing projects. It includes those that are directly attributable to the construction of the projects such as cost of land, direct materials, borrowing costs, professional and consultancy fees, and project management costs.

Properties held for sale are derecognized when they are sold or there are no future benefits to the Group. The carrying amount of those properties held for sale is recognized as an expense, reported as cost and expenses in the period in which the related revenue is recognized.

## **8.8 Prepaid taxes and other current assets**

Input VAT, which represent taxes arising from purchases of goods and services, are carried at face amount or at nominal amount less allowance for impairment loss. This is derecognized when applied against output tax, when written off or when actual refund is received. When input VAT is derecognized, its cost and accumulated impairment losses, if any, are eliminated from the account.

Creditable withholding taxes are carried at face amount or at nominal amount. Creditable withholding taxes are included in current assets, except when these are expected to be utilized more than twelve months after the end of the reporting period, in which case these are classified as non-current assets. Creditable withholding taxes are derecognized when utilized or applied against income tax due.

Prepayments are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Other current assets include assets that are realized as part of the normal operating cycle and are expected to be realized within twelve months after the reporting period.

### **8.9 Investment properties**

Investment property is defined as property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the common course of business.

The Group's investment property, principally comprising of properties in Mandaluyong and Makati City are held for capital appreciation and is not occupied by the Group. The Group has adopted the fair value model for its investment properties.

After initial recognition, investment property is carried at fair value as determined by an independent firm of appraisers. Fair value is based on direct income capitalization approach and market comparison approach, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the independent appraiser. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Changes in fair values are recognized in the consolidated statement of total comprehensive income under 'gain on fair value adjustment of investment properties.'

An investment property is derecognized from the consolidated statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Removal of an item within investment property is triggered by a change in use, by sale or disposal. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Gain or loss arising from disposal is determined as the difference between the net

disposal proceeds and the carrying amount of the asset. Gain or loss on disposal is recognized in profit or loss in the period of the disposal.

Property that is being constructed or developed for future use as investment property is classified as investment property.

#### **8.10 Real estate development projects**

Real estate development projects are undertaken by the subsidiaries and are carried at cost less any impairment in value. Cost primarily consists of acquisition cost of the property being constructed, air rights, expenditures for the development and construction of the real estate project and borrowing costs incurred, if any, in the acquisition of qualifying assets during the construction period and up to the date of completion of construction.

Upon completion of the properties, certain portion of the real estate is accounted for as investment properties if the planned purpose of these properties meet the definition of investment properties.

Upon completion of the properties which are pre-determined for self-use purpose, the properties are classified as property and equipment.

#### **8.11 Property and equipment**

Property and equipment are stated at historical cost less depreciation and amortization, and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items, which comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of total comprehensive income within other general and administrative expenses during the financial period in which they are incurred.

Depreciation and amortization of property and equipment are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (in years), as follows:

	25 or lease term, whichever is shorter
Building and leasehold improvements	
Transportation equipment	3 to 5
Furniture, fixtures and other equipment	2 to 5

Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and estimated useful lives are reviewed periodically, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its disposal at which time the cost and related accumulated depreciation and amortization are removed from the accounts. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized under other income or expense in the consolidated statement of total comprehensive income.

Depreciation or amortization ceases at the earlier of the date when the asset is classified as either investment property or property held for sale and the date the asset is derecognized.

Fully depreciated and amortized property and equipment are retained in the accounts until they are no longer in use, and no further depreciation and amortization are charged to the consolidated statement of total comprehensive income.

## **8.12 Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any NCI in the acquired company and the acquisition-date fair value of any previously-held interest in the acquired company over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

## **8.13 Impairment of non-financial assets**

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use requires the Group to make estimates of future cash flows to be derived from the particular asset, and to discount them using a pre-tax market rate that reflect current assessments of the time value of money and the risks specific to the asset. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increase should not exceed the carrying amount that would have been determined had not the impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized as income immediately.

#### **8.14 Accounts payable and other current liabilities**

Accounts payable and other current liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and financial liabilities at amortized cost are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, these are presented as non-current liabilities.

Accounts payable and other current liabilities are measured at the original invoice amount as the effect of discounting is immaterial.

#### **8.15 Deposits from tenants**

Deposits from tenants are carried at the present value of future cash flows using appropriate discount rates. The difference between the present value and the actual deposit received is treated as additional rental incentive which is recorded under "deferred lease income" in the consolidated statement of financial position and are recognized as rental income using the straight-line method over the term of the lease.

#### **8.16 Borrowings and borrowing costs**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized and charged to profit or loss in the year in which they are incurred.

#### **8.17 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Company, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. The financial assets at fair value through profit or loss and listed available-for-sale financial assets are classified under Level 1 category.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. The Group's unlisted available-for-sale financial assets, refundable deposits, installment payable and deposits from tenants are included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

The Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The investment properties of the Group are classified under Level 3 category.

## **8.18 Current and deferred income tax**

The tax expense comprises current and deferred income taxes. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

In the sale of condominium units resulting in recognition of installment contracts receivable, full recognition for income tax purposes is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary

difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of goodwill. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

Deferred income tax assets and liabilities are derecognized when relevant temporary differences have been realized and settled, respectively. The Group reassesses at each reporting the need to recognize previously unrecognized deferred income tax asset.

#### **8.19 Provisions**

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are derecognized when the obligation is paid, cancelled or has expired.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the reversal is recognized in the consolidated statement of total comprehensive income within the same line item in which the original provision was charged.

## **8.20 Equity**

### *(a) Share capital*

Share capital consists of common shares, which are stated at par value, that are classified as equity.

Share premium is recognized for the excess proceeds and subscriptions over the par value of the shares issued.

### *(b) Treasury shares*

Where any member of the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent Company's shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent Company's shareholders.

### *(c) Retained earnings*

Retained earnings includes current and prior years' results of operations, net of transactions with shareholders and dividends declared, if any.

### *(d) Dividend distribution*

Dividend distribution to Parent Company's shareholder is recognized as a liability in its financial statements in the period in which the dividends are approved by the Board of Directors.

## **8.21 Earnings per share**

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares in issue during the year.

Diluted earnings per share is computed in the same manner as basic earnings per share, however, profit attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

## **8.22 Employee benefits**

### *(a) Retirement benefits*

The Group maintains a defined benefit retirement plan determined by periodic actuarial calculations. This defined benefit retirement plan is funded through payments to a trustee-administered fund and determined by periodic actuarial calculations. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. In cases when the amount determined results in a surplus (being an excess of the fair value of the plan assets over the present value of the defined benefit obligation), the Group measures the resulting asset at the lower of: (a) such amount determined; and (b) the present value of any economic benefits available to the Group in the form of refunds or reductions in future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest of government bonds converted into zero coupon rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement liability.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

*(b) Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

*(c) Short-term employee benefits*

The Group recognizes a liability and an expense for short-term employee benefits which include salaries, paid sick and vacation leaves and bonuses. Bonuses are based on a formula that takes into consideration the resulting qualified profits. The Group recognizes a provision when contractually obliged or when there is a past practice that has created a constructive obligation.

Liabilities for employee benefits are derecognized when the obligation is settled, cancelled or has expired.

## **8.23 Revenue and expense recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the ordinary course of the Group's activities. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical

results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(a) Condominium sales*

The Group assesses whether it is probable that the economic benefits will flow to the Group when the contract price is collectible. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

Revenue from condominium sales is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage of completion (POC) method is used to recognize income from condominium sales where the Group has material obligations under the sales contract to complete the real estate project after the unit is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized revenue are recognized as "excess billing over revenue" under accounts payable and other current liabilities as shown in the consolidated statement of financial position. If the revenue recognition criteria under the full accrual or POC method are not met, the deposit method is applied until all the conditions for recognizing sales are met. Until revenue from condominium sales is recognized, cash received from customers are recognized also as part of "customers' deposits" under accounts payable and other current liabilities.

Cost of condominium sales is recognized consistent with the revenue recognition method applied. Cost of condominium sales sold before completion is determined using the POC used for revenue recognition applied on the acquisition cost of the land plus the total estimated development costs of the property.

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the POC method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included under cost of sales and services - condominium sales account in the consolidated statement of total comprehensive income.

The cost of inventory recognized in profit or loss on disposal (cost of condominium sales) is determined with reference to the specific and allocated costs incurred on the sold property taking into account the POC. The cost of condominium sales also includes the estimated development costs to complete the condominium, as determined by the Company's in-house technical staff, and taking into account the POC. The accrued development costs account is presented under "accounts payable and other current liabilities" in the statement of financial position.

Any changes in estimated development costs used in the determination of the amount of revenue and expenses are recognized in profit or loss in the period in which the change is made.

Estimated loss on unsold units is recognized in profit or loss immediately when it is probable that total project costs will exceed total contract revenue.

*(b) Rental*

Rental income from operating leases (the Group is the lessor) is recognized as income on a straight-line basis over the lease term or based on a certain percentage of gross revenue of the lessees, whichever is applicable. When the Group provides incentives to its lessees, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

When the revenue recognition criteria are not met, cash received from lessees are recognized as advanced rental, until the conditions for recognizing rental income are met.

*(c) Hotel operation*

Hotel operation revenue from room rentals, food and beverage sales, and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center and car rentals, laundry service, telephone service and health club services.

Costs of hotel operation are expensed as incurred. These include expenses incurred for the generation of revenue from food and beverage sales, room rentals, and other ancillary services.

*(d) Interest income and expense*

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a Group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the original effective interest rate.

Interest income on bank deposits is recognized when earned, net of final withholding tax.

*(e) Dividend income*

Dividend income is recognized when the Group's right to receive payment is established, which is generally when the Board of the investee company approved the dividend.

*(f) Other income*

Administration and management services, customer lounge fees, banner income, income from cinema operations and other service income are recognized when the related services have been rendered. Revenues from auxiliary services such as handling, sale of scrap materials, import break bulk and brokerage are recognized when services are provided or when goods are delivered. Money received or amounts billed in advance for rendering of services or delivery of goods are recorded as unearned income until the earning process is complete.

*(g) Cost and expenses*

Cost and expenses are recognized when these are incurred.

## **8.24 Leases**

*(a) Group is the lessor*

Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease or based on a certain percentage of gross revenue of the lessees, whichever is applicable. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Assets under these arrangements are classified as investment property in the consolidated statement of financial position.

*(b) Group is the lessee*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## **8.25 Foreign currency transactions and translation**

*(a) Functional and presentation currency*

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Group.

### *(b) Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

On consolidation, the assets and liabilities of GipseY and SHIL, foreign subsidiaries with functional and presentation currency of Hong Kong dollar, are translated into Philippine Peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other components of equity. On disposal of a foreign subsidiary, the component of other components of equity relating to that particular foreign subsidiary is recognized in profit or loss.

### **8.26 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control the other party, directly or indirectly through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

### **8.27 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. These operating segments are the basis upon which the Group reports its segment information presented in Note 2 to the consolidated financial statements.

The board of the Group has appointed a strategic steering committee which assesses the financial performance and position of the group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the chief executive officer, the chief financial officer and the manager for corporate planning.

The accounting policies used to recognize and measure the segment's assets, liabilities and profit or loss is consistent with those of the consolidated financial statements.

### **8.28 Contingencies**

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.


## **8.29 Events after the reporting period**

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

SHANG PROPERTIES, INC. AND SUBSIDIARIES  
AGING OF RECEIVABLES  
As of June 30, 2018

TENANTS	TOTAL		1-30 DAYS	31-60	61-90	OVER 90
	RECEIVABLES	CURRENT		DAYS	DAYS	DAYS
Mall Tenants	192,361,865	155,964,411	4,448,780	4,419,076	3,691,874	23,837,723
EDSA Shangri-La Hotel & Resort	27,115,069	8,072,699	19,042,371	-	-	-
TECC Tenants	10,955,280	1,315,332	2,090,807	27,322	7,521,819	-
Installment Contracts Receivables & Others	1,259,030,599	1,259,030,599	-	-	-	-
	1,489,462,813	1,424,383,041	25,581,958	4,446,398	11,213,693	23,837,723

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

  
KARLO MARCO PESTAVILLO  
Treasurer