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**SECURITIES AND EXCHANGE COMMISSION**

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Company Information

SEC Registration No. 0000145490

Company Name SHANG PROPERTIES, INC.

Industry Classification

Company Type Stock Corporation

Document Information

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COVER SHEET

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SEC Registration Number											

[illegible]

(Company's Full Name)

[illegible]

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

ATTY. FEDERICO G. NOEL, JR.

(Contract Person)

370-2700

(Company Telephone Number)

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Month *Day*
 (Fiscal Year)

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(Form Type)

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Month Day
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

7
Total No. of Stockholders

Diagram illustrating the components of the Total Amount of Borrowings:

- Total Amount of Borrowings
- Domestic
- Foreign

To be accomplished by SEC Personnel concerned

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File Number

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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 September 2017
2. Commission Identification Number : 145490
3. BIR Tax Identification Number : 000-144-386

SHANG PROPERTIES, INC.

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

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

Title of each Class
Common Stock

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

11. Are any or all of the securities listed on a Stock Exchange?
Yes [x] 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 [x] No []

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

Yes [x] 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


UDAY DESHPANDE
Vice President/Group Financial Comptroller

Date of Signing: 10 November 2017

PART 1 – FINANCIAL INFORMATION

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

Key Performance Indicators

		September 30 2017	September 30 2016	Change
Turnover	(Php M)	10,509.3	7,526.6	39.6%
Profit attributable to shareholders	(Php M)	2,191.2	1,947.1	12.5%
Earnings per share	(Php Ctv)	0.460	0.409	12.5%
Net asset value per share	(Php)	6.185	5.688	8.7%
Debt to equity ratio	(Ratio)	0.714:1	0.887:1	-19.5%

- Turnover consists of sales of residential condominium; revenue from leasing, cinema, and hotel operations; and other income. For the nine (9) months ended September 30, 2017, Shang Properties' revenue increased by P2,982.7 million (M) to P10.5 billion (B) from P7.5 billion (B) revenue during the same period in 2016. Sales of residential condominium units accounted for P6,199.6M or 59% of the total revenue. Revenue from leasing amounted to P2,108.5M or 20% of the total revenue, higher by P43M from P2,065.5M of the same period last year. Shangri-La at Fort's hotel operations contributed revenue amounting to P1,883.6M or 18%, higher by P1,089.4M from P794.2M of the same period last year. Other income increased by P25.9M mainly due to foreign exchange gains and dividend income.
- Profit attributable to shareholders that pertains to net income from operations after tax amounted to P2,191.2M, higher by P244M or 12.5% compared with the same period last year.
- Earnings per share showed a positive variance of 12.5% to P0.460 from last year's P0.409.
- Net asset value per share is calculated by dividing the total net asset of the Group (Total asset – Total liabilities and minority interest) by the number of shares outstanding. Net asset value per share increased by 8.7% mainly due to the higher income generated during the period.
- Debt to equity measures the exposure of creditors to that of the stockholders. It is determined by dividing total debt by stockholder's equity. The Group's financial position remains solid with debt to equity ratio of 0.714:1 as of September 30, 2017 and 0.887:1 as of September 30, 2016.

Financial Condition

Total assets of the Company amounted to P60B, which decreased by P1.7B from total assets of P61.8B in December 31, 2016. The following are significant movements in the assets:

- Increase in financial assets at fair value through profit or loss by P6.7M due to fair market value adjustment recognized during the period.
- Increase in receivables by P972.3M mainly due to receivable from hotel guests, condominium units and advances to associated company.
- Decrease in properties held for sale by P3,095.4M due to recognition of sales of various condominium units.
- Decrease in input tax and other current assets by P538.5M mainly due to the input VAT claimed against output VAT liabilities and the creditable withholding tax applied on income tax payable during the period.
- The recognized deferred tax assets decreased by P27.6M mainly due to the recognition of higher percentage of completion of The Rise condominium project.
- Increase in other noncurrent asset by P17.1 million mainly due to utility deposits paid during the period.
- Current ratio is 2.32:1 as of September 30, 2017 from 2.09:1 as of December 31, 2016.

The net decrease in total liabilities by P3,418.2M from P28.4B in 2016 to P25B in 2017 mainly due to the following:

- Decrease in bank loans mainly due to repayments amounting to P3,461.8M.
- Increase in income tax payable by P213.3M mainly due to higher taxable income generated for the period.
- Increase in dividends payable by P5.9M due to the declaration of cash dividends on September 15, 2017 amounting to P333.5M to all stockholders of record as of June 30, 2017 and paid on September 22, 2017.
- Decrease in accrued employee benefits by P16.2M mainly due to payments made during the period.
- Decrease in installment payable by P84.5M is due to scheduled payment during the period.
- Increase in advance rental by P33.0M is mainly due to rental from new tenants.
- Decrease in deferred lease income by P2.4M mainly due to lower rates used to revalue rental deposits of the tenants of The Enterprise Center.

Results of Operation

Consolidated net income for the period ended September 30, 2017 amounted to P2,191.2M, higher by 12.5% from last year's P1,947.1M.

Net increase in Turnover by P2,982.7M or 39.6% to P10.5B in 2017 from P7.5B in 2016, mainly due to the following:

- Increase in condominium sales by P1,824.5M mainly due to the higher sales recognition from Horizon Homes.

- Increase in rental and cinema revenue by P43M mainly due to higher rental yield of The Enterprise Center.
- Increase in revenue from hotel services of Shangri-La at the Fort by P1,089.4M mainly due to its operation for nine (9) months in 2017 as compared to only seven (7) months operation in 2016. The hotel commenced its operation on 01 March 2016.
- Interest income and other income increased by P25.9M mainly due to foreign exchange gains and dividend income received in 2017.

Cost of sales and services of the Group amounted to P5.9B, higher by P2.2B compared with last year's P3.7B due to the following:

- Increase in cost of condominium sales by P1,182.6M mainly due to higher sales recognition and incremental completion of Horizon Homes and The Rise Makati projects.
- Increase in cost of rental and cinema by P62.7M mainly due to higher repairs and maintenance and advertising and promotion of Shangri-La Mall this year compared to same period last year.
- Increase in cost of hotel services by P971.5M due to its operation for nine (9) months in 2017 as compared to only seven (7) months in 2016.

Operating expenses of the Group amounted to P660.7M, higher by P105.4M or 19% from last year's P555.3M mainly due to the net effect of the following:

- Increase in general and administrative expenses by P88M mainly due to higher administration cost incurred for the ongoing projects.
- Increase in taxes and licenses by P14.2M mainly due to higher business permits and taxes driven by higher revenue earned.
- Increase in depreciation by P3.1M mainly due to the depreciation of newly purchased transportation equipment.
- Increase in insurance by P74k mainly due to insurance of newly purchased transportation equipment.

Increase in interest and bank charges by P132M mainly due to payment of interest due on bank loans of Shangri-La at the Fort upon completion of the project.

Provision for income tax is higher by P259.7M mainly due to higher taxable income during the period.

Financial Soundness Indicators

	End of September 2017	End of December 2016
Current Ratio ¹	2.32:1	2.09:1
Debt-to-equity ratio ²	0.71:1	0.85:1
Asset-to-equity ratio ³	1.71:1	1.85:1

	3Q 2017⁷	3Q 2016
Interest rate coverage ratio ⁴	16.23:1	29.58:1
Return on assets ⁵	4.80%	4.30%
Return on equity ⁶	8.55%	9.29%

¹Current assets/current liabilities

²Total liabilities/stockholders' equity

³Total asset/stockholders' equity

⁴Income before interest and taxes/interest expense

⁵Net Income/average total assets

⁶Net Income/average stockholders' equity

⁷Q Net income after tax annualized/average of end September 2017 and end December 2016 assets and equity

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

- There are no known trends or any known demands, commitments, events or uncertainties that will or reasonably likely result in the registrant's liquidity to increase or decrease 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 material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- There are no material commitments for capital expenditures.
- There are no known trends, events or uncertainties that have had or that are reasonably expected to have material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

- There are no significant elements of income or loss that did not arise from the registrant's continuing operations.
- There are no material changes in periodical reports.
- There are no seasonal aspects that had a material effect on the financial statements.

Item 3. Other Required Disclosures

- A. The attached interim financial reports were prepared in accordance with Philippine Financial Reporting Standards. The accounting policies and methods of computation followed in these interim financial statements are the same compared with the audited financial statements for the period ended December 31, 2016.
- B. Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.
- C. There were no material 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 September 30, 2017 up to the date of this report that needs disclosure herein.
- F. For the required disclosure as per SEC letter dated October 29, 2008 on the evaluation of the company's risk exposure and financial instruments profile please see Note 10 of the attached interim financial statement.

Shang Properties, Inc. and Subsidiaries

Consolidated Financial Statements
September 30, 2017 and 2016

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

	Notes	Unaudited September 30 2017	Audited December 31 2016
ASSETS			
Current Assets			
Cash and cash equivalents		4,338,443,695	4,241,131,012
Financial assets at fair value through profit or loss		39,280,608	32,597,501
Receivables		3,914,553,028	2,942,253,373
Properties held for sale		7,558,312,601	10,653,702,058
Input tax and other current assets		1,167,025,718	1,705,532,427
Total Current Assets		17,017,615,649	19,575,216,371
Noncurrent Assets			
Installment contract receivable – net		864,665,330	864,665,330
Investment in associates and joint venture	4	499,152,456	495,635,612
Investment properties		29,345,788,322	28,979,498,629
Real estate development projects		275,632,515	275,632,515
Available-for-sale financial assets		506,292,842	508,292,842
Property and equipment	5	10,934,529,614	10,447,830,429
Goodwill		269,870,864	269,870,864
Deferred income tax assets		177,395,194	205,027,317
Other noncurrent assets		167,354,330	150,264,226
Total Noncurrent Assets		43,040,681,466	42,196,717,764
TOTAL ASSETS		60,058,297,115	61,771,934,135
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and other current liabilities		6,097,096,651	6,245,107,867
Current portion of:			
Installment payable		199,234,295	199,234,295
Bank loans	6	170,833,334	2,276,643,585
Deposits from tenants		533,286,874	533,286,874
Deferred lease income		18,066,878	18,066,878
Income tax payable		291,198,054	77,868,930
Dividends payable		38,986,182	33,035,177
Total Current Liabilities		7,348,702,269	9,383,243,606
Non-Current Liabilities			
Installment payable - net of current portion		486,533,480	571,036,378
Accrued employee benefits		24,820,768	41,067,131
Bank loans- net of current portion	6	9,403,459,661	10,759,482,775
Deferred income tax liabilities		6,973,828,065	6,956,271,251
Advance rental - net of current portion		168,523,333	135,481,307
Deposit from tenants - net of current portion		588,439,156	563,478,901
Deferred lease income - net of current portion		20,966,140	23,404,553
Total Noncurrent Liabilities		17,666,570,604	19,050,222,296
Total Liabilities		25,015,272,873	28,433,465,902
Stockholder's Equity			
Capital stock:			
Common stock - P1 par value		4,764,058,982	4,764,058,982
Additional paid-in capital		834,439,607	834,439,607
Treasury shares		(6,850,064)	(6,850,064)
Other components of equity		(141,883,183)	(142,015,638)
Retained earnings		23,872,237,819	22,466,858,146
		29,322,003,161	27,916,491,033
Equity attributable to non-controlling interest		5,721,021,082	5,421,977,200
Total Equity		35,043,024,243	33,338,468,233
TOTAL LIABILITIES AND EQUITY		60,058,297,115	61,771,934,135

(See accompanying notes to consolidated financial statements)

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

	UNAUDITED FOR THE THREE (3) MONTHS ENDED		UNAUDITED FOR THE NINE (9) MONTHS ENDED	
	30-Sept-17	30-Sept-16	30-Sept-17	30-Sept-16
REVENUES				
Condominium sales	2,739,142,335	1,513,175,270	6,199,614,289	4,375,147,467
Rental and cinema	651,612,748	681,892,057	2,108,461,474	2,065,496,140
Hotel operation	706,108,453	421,332,321	1,883,642,297	794,193,147
	4,096,863,536	2,616,399,648	10,191,718,059	7,234,836,754
COST OF SALES AND SERVICES				
Condominium sales	1,578,168,218	818,607,436	3,644,707,328	2,462,107,809
Rental and cinema	41,388,318	25,954,043	131,674,451	68,927,187
Hotel operation	732,313,960	498,712,136	2,122,116,349	1,150,622,342
	2,351,870,497	1,343,273,615	5,898,498,128	3,681,657,337
GROSS INCOME	1,744,993,039	1,273,126,032	4,293,219,931	3,553,179,417
OPERATING EXPENSES				
General and administrative	163,727,254	162,782,328	511,738,336	423,742,486
Taxes and licenses	33,034,949	33,781,323	130,986,866	116,760,353
Depreciation and amortization	3,454,229	4,585,112	17,151,759	14,021,884
Insurance	548,214	280,406	824,824	750,663
	200,764,647	201,429,170	660,701,785	555,275,386
OTHER INCOME				
Interest income	60,175,479	68,505,606	172,759,597	192,660,026
Foreign exchange gains – net	13,989,932	6,726,374	37,849,025	5,960,313
Other income – net	47,955,318	25,931,763	106,974,177	93,094,428
	122,120,729	101,163,742	317,582,799	291,714,767
SHARE IN LOSSES OF AN ASSOCIATED COMPANY INTEREST EXPENSE AND BANK CHARGES				
	(795,745)	(795,676)	(3,283,157)	(3,292,987)
	87,141,134	35,779,089	243,115,743	111,089,796
INCOME BEFORE TAX	1,578,412,243	1,136,285,839	3,703,702,046	3,175,236,017
PROVISION FOR INCOME TAX	(422,723,655)	(212,773,719)	(973,731,931)	(714,035,674)
INCOME BEFORE MINORITY INTEREST	1,155,688,587	923,512,120	2,729,970,115	2,461,200,342
MINORITY INTEREST	(248,167,749)	(229,133,265)	(538,723,882)	(514,124,730)
NET INCOME	907,520,838	694,378,855	2,191,246,233	1,947,075,612
RETAINED EARNINGS, beg.	23,298,201,111	21,146,964,818	22,466,858,148	20,346,650,494
LESS: CASH DIVIDENDS	(333,484,129)	(333,484,129)	(785,866,561)	(785,866,561)
RETAINED EARNINGS, end	23,872,237,820	21,507,859,544	23,872,237,820	21,507,895,545
BASIC AND DILUTED EARNINGS PER SHARE	0.19	0.15	0.46	0.41
(See accompanying notes to consolidated financial statements)				

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

(Unaudited)

		Additional	Treasury	Other	Retained	Non-controlling	
	Notes	Capital stock	paid-in capital	stock	earnings	Interest	Total
		Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
Balance as of January 1, 2016		4,764,058,982	834,439,607	(6,850,064)	20,346,650,494	6,370,409,789	32,301,582,765
Cumulative translation adjustment		-	-	-	(130,359)	-	(130,359)
Acquisition of non-controlling int.		-	-	-	-	(1,272,901,627)	(1,272,901,627)
Cash dividends	7	-	-	-	(785,866,561)	(119,840,000)	(905,706,561)
Net income for the period		-	-	-	1,947,075,612	514,124,729	2,461,200,342
Balance as of Sept. 30, 2016		4,764,058,982	834,439,607	(6,850,064)	21,507,859,547	5,491,792,893	32,584,044,562
Balance as of January 1, 2017		4,764,058,982	834,439,607	(6,850,064)	22,466,858,146	5,421,977,200	33,338,468,233
Cumulative translation adjustment		-	-	-	132,455	-	132,454
Cash dividends	7	-	-	-	(785,866,561)	(239,680,000)	(1,025,546,561)
Net income for the period		-	-	-	2,191,246,233	538,723,882	2,729,970,116
Balance as of Sept. 30, 2017		4,764,058,982	834,439,607	(6,850,064)	23,872,237,819	5,721,021,081	35,043,024,243

(See accompanying notes to consolidated financial statements)

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

	September 30, 2017	September 30, 2016
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before income tax	3,703,702,046	3,175,236,017
Adjustments for:		
Interest income	(172,759,597)	(192,660,026)
Interest expense	240,667,850	105,505,183
Depreciation and amortization	17,151,759	14,021,884
Cumulative translation adjustment	132,455	(130,359)
Dividend income	(44,590,970)	(22,127,655)
Change in fair value of financial assets at FVPL	(5,871,241)	(1,322,521)
Share in losses of associate companies	3,283,157	3,292,987
Unrealized foreign exchange gains - net	(37,849,025)	(5,960,313)
Operating income before working capital changes	3,703,866,434	3,075,855,196
Decrease (increase) in:		
Receivables	(972,299,655)	(607,371,620)
Properties held for sale	3,095,389,457	802,507,909
Input tax and other current assets	538,506,709	34,807,382
Increase (decrease) in:		
Accounts payable and other current liabilities	(237,248,020)	569,720,109
Deferred lease income	(2,438,413)	(3,395,274)
Accrued employee benefits	(16,246,363)	(912,364)
Net cash generated from operations	6,109,530,149	3,873,036,065
Income taxes paid	(681,649,978)	(433,090,316)
Interest received	171,670,171	194,517,258
Net cash provided by operating activities	5,599,550,341	3,634,463,007
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Investment properties	(366,289,693)	(219,649,520)
Property and equipment	(503,850,944)	(2,359,514,013)
Investment in associates	(3,516,844)	(2,707,008)
Dividends Received	44,590,970	22,127,655
Decrease in real estate development projects	-	655,023,264
Decrease in other assets	(10,542,020)	2,004,362
Acquisition of subsidiary, net of cash acquired	-	(1,253,988,768)
Net cash used in investing activities	(839,608,530)	(3,156,704,027)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan availment, net of debt issue costs	-	694,750,000
Payments of:		
Loan principal	(3,461,833,365)	-
Interest	(244,009,487)	(110,975,587)
Cash dividends paid to:		
Stockholders	(779,915,555)	(569,825,915)
Non-controlling shareholders of Subsidiaries	(239,680,000)	(119,840,000)
Increase in deposits from tenants	24,960,256	26,890,315
Net cash used in financing activities	(4,700,478,152)	(79,001,187)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	37,849,025	5,960,313
NET DECREASE IN CASH AND CASH EQUIVALENTS	97,312,684	404,718,104
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,241,131,012	4,041,169,742
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,338,443,696	4,445,887,846

(See accompanying notes to consolidated financial statements)

SHANG PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

1. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries as at June 30, 2017 and December 31, 2016 and for each of the two years in the period ended September 30, 2017.

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

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

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interest (NCI).

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

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

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

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

<u>Effective Percentages of Ownership</u> <u>As of September 30, 2017</u>	
Property Development:	
SPRC	100.00%
SPDI	100.00%
TRDCI	100.00%
SGCPI	60.00%
SWWPI	100.00%
Leasing:	
SPSI	100.00%
SLPC	100.00%
KSA	70.04%
Real Estate:	
IPPI	100.00%
KRC	100.00%
MBPI	100.00%
NCRI	100.00%
PSI	100.00%
SFBHI	100.00%
SGCHI	100.00%
Property Management:	
KMSC	100.00%
SPMSI	100.00%
Others:	
Gipsey (BVI Company)	100.00%
SHIL (BVI Company)	100.00%
ELHI	60.00%

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

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

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

Standards issued but not yet effective

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

Effective beginning on or after January 1, 2017

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2018

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

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

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

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

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

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

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

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

- *PFRS 15, Revenue from Contracts with Customers*

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

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

The Group is currently assessing the impact of PFRS 15.

- *PFRS 9, Financial Instruments*

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

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

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

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

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

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

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

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

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

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

Deferred effectivity

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

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

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

2. Segment Information

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

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

Property Development

This business segment pertains to the sale of condominium units.

Leasing

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

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

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

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended September 30, 2017 are as follows:

	Property Development	Rental and Cinema	Hotel Operations	Others	Total Segments	Eliminations	Consolidated
Revenues:							
Condominium sales	₱6,199,614,289	₱—	₱—	₱—	₱6,199,614,289	₱—	₱6,199,614,289
Rental and cinema	—	2,279,428,285	—	—	2,279,428,285	(170,966,812)	2,108,461,473
Hotel operations	—	—	1,883,642,297	—	1,883,642,297	—	1,883,642,297
Cost of sales and services:							
Condominium sales	(3,644,707,328)	—	—	—	(3,644,707,328)	—	(3,644,707,328)
Rental and cinema	—	(131,674,450)	—	—	(131,674,450)	—	(131,674,450)
Hotel operations	—	—	(2,122,116,349)	—	(2,122,116,349)	—	(2,122,116,349)
Gross income	2,554,906,960	2,147,753,835	(238,474,052)	—	4,464,186,743	(170,966,812)	4,293,219,931
Other income	46,452,639	26,001,863	—	71,170,349	143,624,850	(36,650,673)	106,974,177
Staff costs	(81,662,472)	(234,531,887)	—	(8,397,442)	(324,591,802)	8,356,985	(316,234,817)
General and administrative expenses	(94,297,482)	(100,344,352)	—	(870,228)	(195,512,062)	8,546	(195,503,517)
Taxes and licenses	(66,875,773)	(62,663,986)	—	(1,447,107)	(130,986,866)	—	(130,986,866)
Depreciation and amortization	(7,521,791)	(261,040,042)	—	(30,287)	(268,592,121)	251,440,362	(17,151,759)
Insurance	(146,292)	(667,729)	—	(10,804)	(824,824)	—	(824,824)
Segment results	2,350,855,789	1,514,507,701	(238,474,052)	60,414,481	3,687,303,918	52,188,407	3,739,492,325
Interest income	154,945,856	17,321,578	—	492,163	172,759,597	—	172,759,597
Foreign exchange gains – net	13,160,864	24,677,396	—	10,766	37,849,025	—	37,849,025
Share in net income of associates and joint venture	—	—	—	(3,283,158)	(3,283,158)	—	(3,283,158)
Interest expense and bank charges	(147,048,765)	(96,061,777)	—	(5,201)	(243,115,743)	—	(243,115,743)
Provision for income tax	(698,786,411)	(279,538,582)	—	4,593,062	(973,731,931)	—	(973,731,931)
Net income for the year	₱1,673,127,333	₱1,180,906,315	(₱238,474,052)	₱62,222,113	₱2,677,781,709	₱52,188,407	₱2,729,970,116
Segment assets	₱12,152,581,344	₱25,587,977,818	₱12,318,386,945	₱10,010,245,717	₱60,069,191,825	(₱510,047,166)	₱59,559,144,658
Associate companies	—	—	—	499,152,457	499,152,457	—	499,152,457
Total assets	₱12,152,581,344	₱25,587,977,818	₱12,318,386,945	₱10,509,398,174	₱60,568,344,282	(₱510,047,166)	₱60,058,297,115
Segment liabilities	₱7,157,290,757	₱10,314,781,450	₱8,443,176,391	₱6,690,201,482	₱32,605,450,079	(₱7,590,177,206)	₱25,015,272,873
Capital expenditures for the year	₱ 392,553	₱8,006,737	₱1,126,951,351	₱400,622	₱1,135,751,263	₱—	₱1,135,751,263

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

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

3. Business Combination

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

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

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

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

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

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

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

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

4. Investment in associates and joint venture

The breakdown of investment in associates is as follows:

Associate acquired thru the merger:	
Sky Leisure Properties Inc.	₱498,763,471
Other investments	388,985
Carrying value of investment in associates as of September 30, 2017	₱499,152,456

5. Property and Equipment

This account consists of:

	Building and building improvement	Transportation Equipment	Furniture, Fixtures and other Office Equipment	Total
Net book value as at January 1, 2017	₱10,063,038,701	₱15,170,666	₱369,621,062	₱10,447,830,429
Additions	1,093,324,568	2,840,412	39,586,283	1,135,751,263
Depreciation	(578,078,605)	(1,319,587)	(69,709,501)	(649,107,693)
Reclassification	—	—	55,617	55,616
Net book value as at Sept. 30, 2017	₱10,578,284,664	₱16,691,489	₱339,553,461	₱10,934,529,614

6. Bank Loans

Principal payments during the period amounted to P3.462 billion, while proceeds from loan availment amounted to nil.

7. Dividends

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

On August 31, 2017, the BOD approved the declaration of ₱333.5 million cash dividend to all stockholders of record as of September 15, 2017, to be taken from the unrestricted retained earnings of the Parent Company as of June 30, 2017.

8. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related party

relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The following are the transactions with related parties:

Related Party Transactions and Balances which were Not Eliminated During Consolidation

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

Transactions with affiliates

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

9. Subsequent Events

There are no significant subsequent events that happened as of September 30, 2017 that needs disclosure herein.

10. Fair Value Measurement and Financial Instruments

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of September 30, 2017:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets Measured at Fair Value				
Financial assets at FVPL	₱39,280,608	₱–	₱–	₱39,280,608
Investment properties:				
Land	–	–	10,309,700,807	10,309,700,807
Buildings	–	–	19,036,087,516	19,036,087,516
AFS financial assets:				
Quoted	19,466,515	–	–	19,466,515
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Refundable deposits	₱–	₱131,501,234	₱–	₱131,501,234
Liabilities for which Fair Values are Disclosed				
Installment payable	₱–	₱685,767,775	₱–	₱685,767,775
Deposits from tenants	–	1,121,726,030	–	1,121,726,030

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

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

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

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

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

Financial Assets at FVPL

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

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

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

Installment Contracts Receivable

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

Refundable Deposits and Deposits from Tenants

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

AFS Financial Assets

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

Bank Loans

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

11. Financial Risk Management Objective and Policies

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

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

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

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

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The cash flows of the Group's bank loans that are exposed to interest rate risk as of September 30, 2017.

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

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

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

The following table represents the impact on the Group's income before income tax brought about by reasonably possible change in interest rates, with all other variables held constant, as of September 30, 2017 until its next financial reporting date:

Change in Interest Rate	Effect on Income before Income Tax
Increase by 0.50%	₱47,871,465
Decrease by 0.50%	(₱47,871,465)

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

Credit Risk

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

Trade Receivables

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

Liquidity Risk

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

The following tables summarize the maturity profile of financial assets compared with the contractual undiscounted payments of financial liabilities in order to provide a complete view of the Group's liquidity as of September 30, 2017:

	2017				Total
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	
Financial Assets					
Financial assets at FVPL	₱39,280,608	₱-	₱-	₱-	₱39,280,608
Loans and receivables:					
Cash and cash equivalents	4,338,443,695	-	-	-	4,338,443,695
Receivables:					
Installment contracts receivable	3,660,978,019	3,170,673,944	236,845,352	-	7,068,497,315
Rent	193,560,137	-	-	-	193,560,137
Related parties	118,528,888	-	-	-	118,528,888
Advances to officers and employees	7,553,671	-	-	-	7,553,671
Interest	3,622,766	-	-	-	3,622,766
Others	1,057,314,142	-	-	-	1,057,314,142
	9,380,001,319	3,170,673,944	236,845,352	-	12,787,520,615
AFS financial assets	506,292,842	-	-	-	506,292,842
	9,925,574,769	₱3,170,673,944	₱236,845,352	₱-	₱13,330,283,905
Other Financial Liabilities					
Accounts payable and other current liabilities*	₱3,427,140,659	₱-	₱-	₱-	₱3,427,140,659
Installment payable	177,106,358	580,316,697	60,851,353	-	818,274,408
Bank loans	514,312,573	6,171,750,879	2,888,229,542	-	9,574,292,995
Deposits from tenants	45,472,954	209,893,685	633,371,911	235,580,698	1,124,319,248
Accrued employee benefits**	-	-	-	7,609,692	7,609,692
	₱4,164,032,544	₱6,961,961,261	₱3,582,452,806	₱243,190,390	₱14,951,637,001

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

** Excluding accrued retirement benefits of ₱17,211,078.

SHANG PROPERTIES, INC. AND SUBSIDIARIES**AGING OF TRADE RECEIVABLES****As of September 30, 2017**

TENANTS	TOTAL RECEIVABLES	CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS
Mall Tenants	202,518,657	157,020,815	6,294,189	3,303,915	2,141,019	33,758,719
EDSA Shangri-La Hotel & Resort	24,855,443	8,231,545	16,623,898	-	-	-
The Enterprise Centre tenants	13,583,474	2,886,594	(57,012)	(2,411)	10,756,303	-
Shangri-La at the Fort shop tenants	25,996,389	25,996,389	-	-	-	-
Shangri-La at the Fort hotel guests	159,355,868	159,355,868	-	-	-	-
Installment Contracts Receivables	1,367,374,354	1,367,374,354	-	-	-	-
	<u>1,793,684,186</u>	<u>1,720,865,566</u>	<u>22,861,075</u>	<u>3,301,504</u>	<u>12,897,322</u>	<u>33,758,7190</u>

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



UDAY DESHPANDE
Vice President-Controller

