



111122019002069

**SECURITIES AND EXCHANGE COMMISSION**

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Company Name SHANG PROPERTIES, INC.

Industry Classification

Company Type Stock Corporation

**Document Information**

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S H A N G P R O P E R T I E S , I N C .

(Company's Full Name)

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E D S A C O R N E R S H A W B O U L E V A R 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)

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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 2019
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 [ 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



**RAJEEV GARG**  
Group Financial Controller

Date of Signing: 11 November 2019

## PART 1 – FINANCIAL INFORMATION

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

#### Key Performance Indicators

		September 30 2019	September 30 2018	Change
Turnover	(Php M)	8,707.2	8,497.7	2.5%
Profit attributable to shareholders	(Php M)	1,999.3	1,854.9	7.8%
Earnings per share	(Php Ctv)	0.420	0.389	7.8%
Net asset value per share	(Php)	7.079	6.621	6.9%
Debt to equity ratio	(Ratio)	0.545	0.574	-5.2%

- Turnover consists of sales of residential condominium units, revenue from rental and cinema, hotel operations, and other income. For the nine (9) months ended September 30, 2019, Shang Properties' revenue increased by P209.5 million (M) to P8.7 billion (B) from P8.5B during the same period in 2018. Sales of residential condominium units accounted for P3.5B or 40% of the total revenue. Revenue from leasing operations amounted to P2.4B or 27% of the total revenue and higher by P132.6M from P2.2B in the same period last year. Shangri-La at Fort's hotel operations contributed revenue amounting to P2.6B, higher by P371.9M from P2.3B in the same period last year. Other income decreased by P19.5M.
- Profit attributable to shareholders pertains to net income from operations after tax amounted to P1,999.3M, higher by P144.5M or 7.8% compared with the same period last year.
- Earnings per share increased by of 7.8% to P0.420 from last year's P0.389.
- 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 6.9% to P7.08 from last year's P6.62 mainly due to income generated during the period.
- Debt to equity measures the exposure of creditors to that of the stockholders. It gives an indication of how leveraged the Group is. It is determined by dividing total debt by stockholder's equity. The Group's financial position remains solid with debt to equity ratio of 0.55:1 as of September 30, 2019 and 0.57:1 as of September 30, 2018.

## **Financial Condition**

Total assets of the Company amounted to P61.9B, an increase of P1.6B from total assets of P60.3B in December 31, 2018. The following are significant movements in the assets:

- Decrease in cash and cash equivalents by P819M is mainly due to repayment of bank loans and capital infusion to the joint venture with Robinsons Land Corporation amounting to P1B.
- Increase in receivables by P2.2B is mainly due to higher installment contracts receivables on the sale of condominium units of The Rise project.
- Decrease in properties held for sale by P613M is mainly due to recognition of units sold by The Rise project.
- Decrease in input tax and other current assets by P157.6M is mainly due to recoupment of advances to contractors and suppliers upon progress billings and percentage of accomplishment or delivery as stipulated in the contract.
- Increase in investment in associates and a joint venture by P1B is mainly due to infusion to the joint venture with Robinsons'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.
- Increase in real estate development projects by P768.8M is mainly due to construction cost of SPI Tower.
- The recognized deferred income tax assets increased by P79.8M mainly due to the difference in method of accounting of the gross profit on sale of condominium units between financial statements reporting and income tax reporting. Sales of condominium units of The Rise and Shang Residences at Wack Wack project were recognized in full for income tax reporting, while percentage of work completed was recognized in the financial statements. The difference between the two methods resulted in the recognition of deferred tax assets.
- Decrease in other noncurrent assets by P184M is mainly due to full payment made for the acquired land by the Parent Company along Shaw Blvd, Mandaluyong City for development and other activities to create a real estate property intended for future lease or sale.
- Current ratio is 1.18:1 as of September 30, 2019 from 1.31:1 as of December 31, 2018.

Total liabilities increased by P633M from P21.2B in 2018 to P21.8B in 2019 mainly due to the net effect of the following:

- Decrease in installment payable by P 63.1M is mainly due to payment to Vivelya Development Company for the purchase of land for TRDCI project.

- Decrease in bank loans by P263M mainly due to repayment amounting to P2.7B which was partially offset by availment of additional bank loan amounting to P2.4M.
- Decrease in deferred lease income by P8.6M is mainly due to amortization of security deposits from The Enterprise Center tenants of KSA Realty Corp.
- Decrease in income tax payable by P22M mainly due to payment of income tax due for the period.
- Increase in dividends payable by P398.9M is mainly due to the declaration of cash dividend of the Corporation equivalent to P0.87 per share to all shareholders of record as of September 30, 2019. This will be taken from the unrestricted retained earnings of the Corporation as reflected in the unaudited Financial Statements of the Corporation as of June 30, 2019 and subsequently paid in October 2019.
- Increase in accrued employee benefits by P24.8M is mainly due to the accruals made for retirement benefits during the period.
- Increase in deposits from tenants by P63.4M was mainly due to rental deposits from new tenants of The Enterprise Center.

### **Results of Operation**

Consolidated net income for the period ended September 30, 2019 amounted to P2B higher by P144.5M from last year's P1.85B.

Turnover increased by P209.4M or 2.5% to P8.7B in 2019 from P8.5B in 2018, mainly due to net effect of the following:

- Decrease in condominium sales by P275.5M mainly due to fewer available units for sale due to completed projects.
- Increase in revenue from rental and cinema by P132.6M is mainly due to higher rental yields of The Enterprise Center.
- Increase in revenue from hotel operations by P372M mainly due to higher occupancy and average daily rate this year as compared to same period last year.
- Interest income and other income decreased by P19.5M mainly due to loss in foreign exchange brought about by the revaluation of the US dollar against the Philippine Peso.

Total costs and expenses of the Group amounted to P5.5B, higher by P116.4M compared with last year's P5.4B. This was mainly due to the following:

- Decrease in cost of condominium sales by P117.7M is mainly due to lower sales for Horizon Homes as it was fully sold at the end of 2018 and Shang Salcedo Place as only very few units were left for sale this year.

- Increase in general and administrative expenses by P93.3M is mainly due to the increase in salaries and wages and advertising expense for new projects.
- Decrease in insurance by P1.5M mainly due to timing difference of the renewal of the Group's fidelity insurance coverage.
- Increase in depreciation by P69.9M is due to depreciation of office improvements of the Parent Company which were completed in 2018 only.
- Decrease in interest expense and bank charges by P27.5M was mainly due to repayment of loans of the Parent company and Shang Global City Properties.

#### **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 September 2019	End of December 2018
Current Ratio <sup>1</sup>	1.18:1	1.31:1
Debt-to-equity ratio <sup>2</sup>	0.54:1	0.54:1
Asset-to-equity ratio <sup>3</sup>	1.54:1	1.54:1
	<b>3Q 2019</b>	<b>3Q 2018</b>
Interest rate coverage ratio <sup>4</sup>	15.50:1	13.26:1
Return on assets <sup>5</sup>	4.36%	4.14%
Return on equity <sup>6</sup>	6.74%	6.69%

<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 = 3Q Net income x Average Total Assets = average total assets as of end of September 2019 and end of September 2018

Average Stockholders' Equity = average stockholders' equity as of end of September 2019 and end of September 2018

**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, 2018.

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 any material effect 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, 2019 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  
September 30, 2019 and 2018

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

	Notes	Unaudited September 30, 2019	Audited December 31, 2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	1,613,086,855	2,432,097,332
Financial assets at fair value through profit or loss		39,160,608	41,424,316
Trade and other receivables		5,451,827,067	3,284,010,542
Properties held for sale		3,064,575,503	3,677,577,353
Input tax and other current assets		1,357,901,128	1,515,512,255
<b>Total Current Assets</b>		<b>11,526,551,160</b>	<b>10,950,621,798</b>
<b>Noncurrent Assets</b>			
Investments in associates and a joint venture		2,017,046,484	1,000,388,985
Investment properties	4	32,589,541,579	32,511,076,048
Real estate development projects		1,264,709,838	495,950,088
Financial assets at fair value through other comprehensive income, net		781,699,496	782,395,996
Property and equipment, net	5	13,057,265,638	13,754,741,363
Goodwill		269,870,864	269,870,864
Deferred income tax assets, net		202,224,894	122,428,897
Other non-current assets		184,419,593	368,410,888
<b>Total Noncurrent Assets</b>		<b>50,366,778,385</b>	<b>49,305,263,129</b>
<b>TOTAL ASSETS</b>		<b>61,893,329,545</b>	<b>60,255,884,927</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities		5,653,945,119	5,391,793,728
Current portion of:			
Installment payable		478,062,125	390,280,531
Bank loans		2,528,333,333	1,833,333,333
Deposits from tenants		503,462,220	503,462,220
Deferred lease income		24,879,918	33,518,985
Income tax payable		139,955,877	162,066,422
Dividends payable		441,534,837	42,683,650
<b>Total Current liabilities</b>		<b>9,770,173,430</b>	<b>8,357,138,869</b>
Installment payable, net of current portion		-	150,881,202
Accrued employee benefits		81,890,153	57,052,807
Bank loans, net of current portion		3,191,666,166	4,149,694,158
Deferred income tax liabilities, net		7,896,840,376	7,655,864,029
Advance rental, net of current portion		187,029,727	187,029,727
Deposits from tenants, net of current portion		653,912,707	590,521,263
Deferred lease income, net of current portion		41,343,640	41,343,640
<b>Total Non-current liabilities</b>		<b>12,052,682,768</b>	<b>12,832,386,826</b>
<b>TOTAL LIABILITIES</b>		<b>21,822,856,199</b>	<b>21,189,525,695</b>
<b>Equity</b>			
Share capital		4,764,058,982	4,764,058,982
Share premium		834,439,607	834,439,607
Treasury shares		(6,850,064)	(6,850,064)
Equity reserves		(141,132,606)	(141,132,606)
Other comprehensive income		221,162,512	219,970,989
Retained earnings		28,272,425,342	27,108,948,851
Total equity attributable to shareholders of the Parent Company		33,944,124,730	32,779,435,759
Non-controlling interests		6,126,348,616	6,286,923,473
<b>Total Equity</b>		<b>40,070,473,346</b>	<b>39,066,359,232</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>61,8903,329,545</b>	<b>60,255,884,927</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 NINE (9) MONTHS ENDED	
	30-Sept-19	30-Sept-18	30-Sept-19	30-Sept-18
<b>REVENUES</b>				
Condominium sales	2,340,028,245	2,284,304,022	3,474,112,182	3,749,600,485
Rental and cinema	1,570,921,477	1,452,838,539	2,357,125,926	2,224,543,275
Hotel operations	1,786,475,480	1,548,744,559	2,639,734,404	2,267,878,648
	5,697,425,203	5,285,887,120	8,470,972,511	8,242,022,408
<b>COST OF SALES AND SERVICES</b>				
Condominium sales	1,415,512,373	1,372,616,398	2,142,145,189	2,259,837,000
Rental and cinema	71,598,177	109,290,760	116,536,984	166,333,957
Hotel operations	1,430,303,270	1,343,254,230	1,712,209,537	1,587,594,944
	2,917,413,820	2,825,161,388	3,970,891,710	4,013,765,901
<b>GROSS INCOME</b>	<b>2,780,011,382</b>	<b>2,460,725,732</b>	<b>4,500,080,801</b>	<b>4,228,256,507</b>
<b>OPERATING EXPENSES</b>				
General and administrative	385,988,827	317,602,351	538,173,183	444,849,225
Taxes and licenses	128,187,848	94,548,570	171,593,665	173,956,825
Depreciation and amortization	288,160,798	235,396,709	831,324,638	761,470,620
Insurance	5,171,688	5,924,041	12,755,818	14,249,106
	807,509,162	653,444,672	1,553,847,304	1,394,525,777
<b>OTHER INCOME</b>				
Interest income	109,315,690	96,106,382	148,474,609	136,198,017
Foreign exchange (loss)	(487,972)	23,920,511	(4,914,588)	28,671,123
Other income – Net	74,837,069	58,061,836	92,671,548	90,827,491
	183,664,787	178,088,729	236,231,569	255,696,631
<b>INCOME BEFORE SHARE IN PROFIT OF ASSOCIATES SHARE IN NET LOSSES OF ASSOCIATES</b>	2,156,167,008	1,985,369,790	3,182,465,065	3,089,427,363
<b>INTEREST EXPENSE AND BANK CHARGES</b>	-	(2,529,643)	-	(2,529,643)
	136,423,423	149,533,352	205,322,930	232,858,609
<b>INCOME BEFORE INCOME TAX</b>	<b>2,019,743,585</b>	<b>1,833,306,794</b>	<b>2,977,142,136</b>	<b>2,854,039,113</b>
<b>PROVISION FOR INCOME TAX</b>	(508,428,407)	(438,013,629)	(739,906,252)	(705,273,419)
<b>INCOME BEFORE NON CONTROLLING INTERESTS</b>	<b>1,511,315,719</b>	<b>1,395,293,168</b>	<b>2,237,235,884</b>	<b>2,148,765,691</b>
<b>NON CONTROLLING INTERESTS</b>	(162,742,549)	(213,065,976)	(237,893,138)	(293,878,419)
<b>NET INCOME</b>	<b>1,348,572,630</b>	<b>1,182,227,192</b>	<b>1,999,342,746</b>	<b>1,854,887,272</b>
<b>RETAINED EARNINGS, beg.</b>	27,780,065,813	25,004,629,866	27,108,948,851	25,027,307,239
<b>LESS: CASH DIVIDENDS</b>	(836,091,881)	(931,104,691)	(835,866,254)	(930,836,291)
<b>RETAINED EARNINGS, end.</b>	<b>28,292,546,561</b>	<b>25,255,752,367</b>	<b>28,272,425,342</b>	<b>25,951,358,219</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>0.28</b>	<b>0.25</b>	<b>0.42</b>	<b>0.39</b>

See accompanying notes to consolidated financial statement

**Consolidated Statements of Changes in Equity**  
**For the nine (9) months ended September 30, 2019**  
(With comparative figures for the year ended September 30, 2018)  
**(All amounts in Philippine Peso)**

	Shareholders of the Parent Company										
	Other comprehensive income										
	Share capital	Share premium	Treasury shares	Cumulative changes in fair value of financial assets at FVOCI/AFS	Cumulative translation adjustments	Remeasurement loss on defined benefit plan	Total	Equity reserves	Retained earnings	Non-controlling interests	Total
Balances at December 31, 2017, as previously presented	4,764,058,982	834,439,607	(6,850,064)	14,965,000	(272,439)	(24,487,653)	(9,795,092)	(141,132,606)	25,027,307,247	6,056,213,206	36,524,241,280
Change in accounting policy	-	-	-	220,500,516	-	-	220,500,516	-	-	-	220,500,516
Balances at January 1, 2018, as restated	4,764,058,982	834,439,607	(6,850,064)	235,465,516	(272,439)	(24,487,653)	210,705,424	(141,132,606)	25,027,307,247	6,056,213,206	36,744,741,796
Comprehensive Income											
Net income for the period	-	-	-	-	-	-	-	-	1,854,887,272	293,878,419	2,148,765,691
Other comprehensive income	-	-	-	1,084,670	-	-	1,084,670	-	-	-	1,084,670
Total comprehensive income	-	-	-	1,084,670	-	-	1,084,670	-	1,854,887,272	293,878,419	2,149,850,361
Transaction with owners											
Cash dividends declared	-	-	-	-	-	-	-	-	(930,836,299)	(317,575,994)	(1,248,412,293)
Balances at September 30, 2018	4,764,058,982	834,439,607	(6,850,064)	236,550,186	(272,439)	(24,487,653)	211,790,094	(141,132,606)	25,951,358,220	6,032,515,631	37,646,179,864
Balances at January 1, 2019	4,764,058,982	834,439,607	(6,850,064)	243,226,016	(612,424)	(22,642,602)	219,970,989	(141,132,606)	27,108,948,8510	6286,923,473	39,066,359,232
Comprehensive Income											
Net income for the period	-	-	-	-	-	-	-	-	1,999,342,746	237,893,138	2,237,235,884
Other comprehensive income	-	-	-	1,212,475	-	-	1,212,479	-	-	-	1,212,479
Total comprehensive income	-	-	-	1,212,475	-	-	1,212,479	-	1,999,342,746	237,893,138	2,238,448,363
Transaction with owners											
Cash dividends declared	-	-	-	-	-	-	-	-	(835,866,254)	(398,467,995)	(1,234,334,249)
Balances at September 30, 2019	4,764,058,982	834,439,607	(6,850,064)	244,438,495	(612,424)	(22,642,603)	221,183,468	(141,132,606)	28,272,425,342	6,126,348,616	40,070,473,346

**Shang Properties, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(All amounts in Philippine Peso)

	<b>SEPTEMBER 30</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Income before provision for income tax	2,977,142,136	2,854,039,110
Adjustments for:		
Depreciation and amortization	831,324,638	761,470,620
Interest expense	195,730,936	224,522,921
(Gain) on fair value adjustment of financial assets at fair value through profit or loss	2,263,708	3,245,153
Share in net losses of associates	-	2,529,643
Cumulative translation adjustment	(1,212,479)	1,084,670
Unrealized foreign exchange gain (loss)	4,914,588	(28,671,123)
Write-off of available for sale financial assets	1,550,000	-
Dividend income	(37,001,465)	(42,913,558)
Interest income	(148,474,609)	(136,198,018)
Operating income before working capital changes	3,826,237,452	3,646,875,871
Changes in working capital:		
Trade and other receivables	(2,167,816,525)	630,437,101
Properties held for sale	(613,001,851)	(326,012,630)
Prepaid taxes and other current assets	157,611,127	(12,682,331)
Real estate development projects	(768,759,750)	-
Other non-current assets	104,195,299	193,660,842
Accounts payable and other current liabilities	(341,384,009)	(908,059,231)
Accrued employee benefits	(24,837,346)	15,118,796
Installment payable	(63,099,608)	(69,981,704)
Deposits from tenants	(63,391,444)	38,724,001
Net cash generated from operations	1,271,757,046	3,208,080,715
Income tax paid	(762,016,797)	(767,932,098)
Interest received	151,401,467	136,463,595
Net cash provided by operating activities	661,141,716	2,576,612,211
<b>Cash flows from investing activities</b>		
Additions to:		
Investments in a joint venture	(1,016,657,499)	(850,661,363)
Investment properties	(78,465,531)	(1,584,990,153)
Property and equipment	(134,017,151)	(165,127,783)
Dividends received	37,001,465	40,769,558
Net cash used in investing activities	(175,481,217)	(2,560,009,740)
<b>Cash flows from financing activities</b>		
Payments of:		
Loan principal	(2,658,027,992)	(2,872,678,618)
Interest	(201,245,334)	(224,522,921)
Cash dividends paid to:		
Shareholders	(437,015,067)	(802,707,618)
Non-controlling shareholders of subsidiaries	(398,467,995)	(317,575,994)
Proceeds from loan availment, net of debt issue costs	2,395,000,000	1,300,000,000
Net cash used in financing activities	(1,299,756,388)	(2,927,328,536)



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<b>Net decrease in cash and cash equivalents for the period</b>	(823,925,066)	(2,882,054,942)
Cash and cash equivalents at January 1	2,432,097,332	5,030,757,380
Effects of exchange rate changes on cash and cash equivalents	(4,914,588)	28,671,123
<b>Cash and cash equivalents at September 30</b>	<b>1,613,086,854</b>	<b>2,148,702,439</b>

**SHANG PROPERTIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

**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 Project, located in Mandaluyong City.

*(b) Hotel operation*

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 Project, located in Taguig City. SGCPI's hotel and restaurant operations started commercial operations on March 1, 2016.

*(c) Leasing*

This business segment pertains to the rental operations of the Shangri-La Plaza Mall, The Enterprise Center ("TEC") and their related carpark operations as operated by Shangri-La Plaza Corporation ("SLPC"), KSA Realty Corporation ("KSA") and 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 2019 and 2018. There is no need to present reconciliation since measure of segment assets, liabilities and results of operations are consistent with those of the consolidated 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 segments and related strategies and policies in 2019 and 2018.

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the period ended September 30, 2019 are as follows:

	Property development	Hotel operation	Leasing	Others	Total segments	Eliminations	Consolidated
<b>Revenues</b>							
Condominium sales	3,474,112,182	-	-	-	3,474,112,182	-	3,474,112,182
Rental and cinema	-	-	2,538,025,356	-	2,538,025,356	(180,899,430)	2,357,125,926
Hotel operation	-	2,639,734,404	-	-	2,639,734,404	-	2,643,734,404
<b>Cost of sales and services</b>							
Condominium sales	(2,142,145,189)	-	-	-	(2,142,145,189)	-	(2,142,145,189)
Rental and cinema	-	-	(116,536,984)	-	(116,536,984)	-	(116,536,984)
Hotel operation	-	(1,712,209,537)	-	-	(1,712,209,537)	-	(1,712,209,537)
Gross income (loss)	1,331,966,993	927,524,866	2,421,488,372	-	4,680,980,231	(180,899,430)	4,500,080,801
<b>Operating expenses</b>							
Staff costs	(98,407,936)	(6,520,462)	(355,803,706)	(38,556,131)	(499,288,235)	157,962,473	(341,325,762)
Taxes and licenses	(42,628,839)	(34,063,907)	(89,773,279)	(5,127,640)	(171,593,665)	-	(171,593,665)
Depreciation and amortization	(960,365)	(812,824,053)	(167,916,404)	(96,483)	(981,797,305)	150,472,667	(831,324,638)
Insurance	(191,973)	(11,337,814)	(1,208,095)	(17,936)	(12,755,818)	-	(12,755,818)
Other general and administrative	(64,959,045)	(576,501)	(124,501,909)	(6,809,966)	(196,847,421)	-	(196,847,420)
Other income (expense)							
Interest income	119,423,242	6,425,196	21,825,900	800,271	148,474,609	-	148,474,609
Foreign exchange gains (losses)	(2,165,141)	(1,427,339)	(1,316,661)	(5,448)	(4,914,588)	-	(4,914,588)
Other income, net	41,494,598	-	118,767,102	90,312,304	250,574,003	(157,902,456)	92,671,548
Interest expense and bank charges	(110,324,137)	-	(94,993,820)	(4,973)	(205,322,930)	-	(205,322,930)
Income (Loss) before income tax	1,173,247,397	67,199,986	1,726,567,500	40,590,481	3,007,605,364	(30,366,746)	2,977,142,136
Provision for income tax	(391,632,071)	(13,058,951)	(345,510,350)	-	(750,201,372)	10,295,119	(739,906,252)
Net income (loss) for the year	781,615,326	54,141,035	1,381,057,150	40,590,481	2,257,403,992	(20,071,627)	2,237,235,884
<b>Segment assets</b>	14,398,763,188	7,591,739,063	31,100,137,157	13,085,101,915	66,175,741,323	(6,299,458,262)	59,876,283,061
Associate companies	-	-	-	2,017,046,484	2,017,046,484	-	2,017,046,484
Total assets	14,398,763,188	7,591,739,063	31,100,137,157	15,102,148,399	68,192,787,808	(6,299,458,262)	61,893,329,545
<b>Segment liabilities</b>	7,828,609,915	3,065,950,130	14,738,845,921	9,210,125,667	34,843,531,633	(13,020,675,432)	21,822,856,199
Capital expenditures for the year	2,830,981	112,141,291	18,881,344	163,536	134,017,151	-	134,017,151

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended December 31, 2018 are as follows:

	Property development	Hotel operation	Leasing	Others	Total segments	Eliminations	Consolidated
<b>Revenues</b>							
Condominium sales	4,207,725,948	783,522,331	-	-	4,991,248,279	-	4,991,248,279
Rental and cinema	-	103,587,139	3,145,593,103	-	3,249,180,242	(231,848,991)	3,017,331,251
Hotel operation	-	3,171,907,725	-	-	3,171,907,725	-	3,171,907,725
<b>Cost of sales and services</b>							
Condominium sales	(2,693,212,800)	(307,348,423)	-	-	(3,000,561,223)	-	(3,000,561,223)
Rental and cinema	-	-	(241,988,954)	-	(241,988,954)	(4,422,383)	(246,411,337)
Hotel operation	-	(3,023,783,595)	-	-	(3,023,783,595)	-	(3,023,783,595)
<b>Gross income</b>	<b>1,514,513,148</b>	<b>727,885,177</b>	<b>2,903,604,149</b>	<b>-</b>	<b>5,146,002,474</b>	<b>(236,271,374)</b>	<b>4,909,731,100</b>
<b>Operating expenses</b>							
Staff costs	(116,145,626)	(6,088,626)	(361,112,216)	(11,229,423)	(494,575,891)	56,304,575	(438,271,316)
Taxes and licenses	(65,362,223)	(38,749,585)	(85,990,201)	(13,292,316)	(203,394,325)	-	(203,394,325)
Depreciation and amortization	(1,186,061)	-	(202,559,636)	(16,875)	(203,762,572)	180,729,836	(23,032,736)
Insurance	(2,013,374)	-	(1,324,884)	(13,163)	(3,351,421)	-	(3,351,421)
Other general and administrative	(79,924,576)	(277,519,182)	(163,095,841)	(8,751,983)	(529,291,582)	9,161,595	(520,129,987)
<b>Other income (expense)</b>							
Gain on fair value adjustment of investment properties	(136,392,806)	-	1,281,604,356	180,238,500	1,325,450,050	(445,455,773)	879,994,277
Interest income	148,245,729	21,847,470	19,493,406	1,242,290	190,828,895	-	190,828,895
Foreign exchange gains (losses), net	13,313,171	5,330,885	5,520,360	(108,816,697)	(84,652,281)	108,839,014	24,186,733
Other income, net	120,722,046	206,668,529	33,851,901	1,462,627,836	1,823,870,312	(1,449,313,799)	374,556,513
Interest expense and bank charges	(263,116)	(188,978,167)	(33,652,296)	(135,848,130)	(358,741,709)	-	(358,741,709)
<b>Income before income tax</b>	<b>1,395,505,312</b>	<b>450,396,501</b>	<b>3,396,339,098</b>	<b>1,366,140,039</b>	<b>6,608,381,950</b>	<b>(1,776,005,926)</b>	<b>4,832,376,024</b>
Provision for income tax	(446,005,860)	(133,913,982)	(659,135,439)	(9,503,010)	(1,248,558,291)	(23,203,276)	(1,271,761,567)
<b>Net income for the year</b>	<b>949,500,452</b>	<b>316,482,519</b>	<b>2,737,203,659</b>	<b>1,356,637,029</b>	<b>5,359,823,659</b>	<b>(1,799,209,202)</b>	<b>3,560,614,457</b>
<b>Segment assets</b>	<b>12,848,496,749</b>	<b>9,146,496,232</b>	<b>30,352,019,019</b>	<b>13,231,383,964</b>	<b>65,578,395,964</b>	<b>(6,322,900,022)</b>	<b>59,255,495,942</b>
Associate companies (Note 8)	-	-	-	1,000,388,985	1,000,388,985	-	1,000,388,985
<b>Total assets</b>	<b>12,848,496,749</b>	<b>9,146,496,232</b>	<b>30,352,019,019</b>	<b>14,231,772,949</b>	<b>66,578,784,949</b>	<b>(6,322,900,022)</b>	<b>60,255,884,927</b>
<b>Segment liabilities</b>	<b>7,051,526,346</b>	<b>4,590,810,260</b>	<b>13,112,558,754</b>	<b>8,757,631,862</b>	<b>33,512,527,222</b>	<b>(12,323,001,527)</b>	<b>21,189,525,695</b>
<b>Capital expenditures for the year (Notes 10 and 13)</b>	<b>58,076,120</b>	<b>17,004,568</b>	<b>489,886,876</b>	<b>-</b>	<b>564,967,564</b>	<b>-</b>	<b>564,967,564</b>

**Note 3 - Cash and cash equivalents**

Cash and cash equivalents as at September 30, 2019 and December 31, 2018 consist of:

	2019	2018
Cash on hand	10,405,553	14,679,720
Cash in banks	390,278,129	592,751,317
Cash equivalents	1,212,403,172	1,824,666,295
	1,613,086,855	2,432,097,332

Cash in banks earned an average interest at respective bank deposit rates of 0.25% in 2018 and 2019.

Cash equivalents are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short term investments, which have an average maturity of 30 days, earn interest ranging from 0.50% to 2.5% in 2019 (2018-0.5% to 6.375%).

**Note 4 - Investment properties**

Details of investment properties as at September 30, 2019 and December 31, 2018 and their movements during the period are as follows:

	Land	Building	Total
January 1, 2018	11,794,156,481	18,306,046,962	30,100,203,443
Gain on fair value adjustment	814,449,087	65,545,190	879,994,277
Capitalized subsequent expenditures	45,226,174	444,660,702	489,886,876
Addition through step acquisition	1,040,991,452	-	1,040,991,452
December 31, 2018	13,694,823,194	18,816,252,854	32,511,076,048
Capitalized subsequent expenditures	-	78,465,530	78,465,530
September 30, 2019	13,694,823,194	18,894,718,384	32,589,541,578

The Group's investment properties located 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 for lease are being leased out to subsidiaries and third parties.

As at December 31, 2018, 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:

Property and Equipment	Building and building improvement	Transportation Equipment	Furniture, fixtures and other Office equipment	Total
<b>Cost</b>				
January 1, 2019	₱9,424,595,767	₱50,989,050	₱6,851,791,731	₱16,327,376,548
Additions	75,076,702	7,043,354	51,897,094	134,017,151
Ending balance	9,499,672,469	58,032,405	6,903,688,825	₱16,461,393,699
<b>Accumulated Depreciation</b>				
January 1, 2019	1,614,491,571	32,928,318	924,765,296	2,572,635,185
Depreciation	784,994,841	4,565,832	41,932,203	831,492,876
Ending balance	2,399,936,412	37,494,150	966,697,499	3,404,128,061
Net book value as at 31 September 2019	₱7,099,736,057	₱20,538,255	₱5,936,991,326	₱13,057,265,638

## **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 for the period ended September 30, 2019 and December 31, 2018.

### 6.2 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.

#### *(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 FVOCI/AFS financial assets presented in the consolidated statements 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. Interest rates on bank loans of SGCPI are based on the higher between the PHP BVAL rate plus 0.75% per annum and the BSP overnight borrowing rate. The Parent Company's bank loan has fixed interest rate, to be repriced every 30 to 180 days as agreed by the parties.

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 the 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 Group's financial assets are categorized based on the Group's collection experience with the counterparties as follows:

- a. High performing- settlements are obtained from counterparty following the terms of the contracts without the history of default.
- b. Underperforming-some reminder follow-ups are performed to collect accounts from counterparty.
- c. Credit Impaired-evidence that a financial asset is credit impaired includes the following observable data: significant financial difficulty of the counterparty, a breach of contract such as a default of being more than 120 days past due; or it is probable that the borrower will enter bankruptcy or other financial reorganization.



The table below shows the credit quality of significant financial assets (i.e., cash and cash equivalents, and trade and other receivables) as at September 30, 2019 and December 31, 2018:

	High performing	Under performing	Credit impaired	Total
2019				
Current assets				
Cash and cash equivalents	1,613,086,855	-	-	1,613,086,855
Trade and other receivables	5,281,790,879		15,542,333	5,297,333,212
Non-current assets				
Refundable deposits	140,587,652	-	-	140,587,652
	7,035,465,386	-	15,542,333	7,051,007,719
2018				
Current assets				
Cash and cash equivalents	2,432,097,332	-	-	2,404,887,736
Trade and other receivables	3,284,010,542	-	15,542,333	3,299,552,875
Non-current assets				
Refundable deposits	76,104,635	-	-	76,104,635
	5,765,002,913	-	15,542,333	5,780,545,246

There are no collaterals held as security or other credit enhancement attached to the Group's financial assets. The credit quality of the Group's financial assets is discussed below.

*(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.

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 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.

Non-trade receivables

The credit exposure on nontrade receivables is considered to be minimal as there is no history of defaults and collections are expected to be made within 30 to 60 days. In respect of balances due

from related parties, management considered the credit quality of these receivables to be good based on financial condition of the related parties.

*(c) Refundable deposits*

Refundable deposits includes 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. Refundable deposits are considered as high grade financial assets.

### 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
<b>At September 30, 2019</b>				
Bank loans	133,333,333	1,433,333,333	4,153,332,833	5,719,999,499
Accounts payable and other current liabilities*	3,162,472,740	-	-	3,162,472,740
Deposits from tenants	-	-	503,462,220	503,462,220
Installment payable	241,376,830	91,306,826	145,378,469	478,062,125
Dividends payable	441,534,837	-	-	441,534,837
Future interest payable	68,782,084	64,314,612	118,522,986	251,619,682
	4,047,499,824	1,588,954,771	4,920,696,508	10,557,151,103
<b>At December 31, 2018</b>				
Bank loans	133,333,333	1,433,333,333	266,666,667	1,833,333,333
Accounts payable and other current liabilities*	3,372,650,316	-	-	3,372,650,316
Deposits from tenants	-	-	503,462,220	503,462,220
Installment payable	113,948,488	91,306,826	185,025,217	390,280,531
Dividends payable	-	42,683,650	-	42,683,650
Future interest payable	88,681,822	88,255,395	132,350,972	309,288,189
	3,708,613,959	1,655,579,204	1,087,505,076	6,451,698,239

*\*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 2019 and 2018.

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 September 30, 2019 and December 31, 2018 is presented below:

	September 30, 2019	December 31, 2018
Net debt		
Long-term loan	5,719,999,499	5,983,027,491
Less: cash and cash equivalents	1,613,086,855	2,432,097,332
	4,106,912,644	3,550,930,159
Capital		
Total equity	40,070,473,346	39,066,359,232
Less: Non-controlling interest	6,126,348,616	6,286,923,473
	33,944,124,730	32,779,435,759
Gearing ratio	12.10%	10.83%

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 September 30, 2019 and December 31, 2018:

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
2019				
<i>Assets measured at fair value</i>				
Financial assets at fair value through profit or loss	39,160,608	-	-	39,160,608
Investment properties:				
Land	-	-	13,694,823,194	13,694,823,194
Buildings	-	-	18,894,718,384	18,894,718,384
AFS financial assets:				
Quoted	32,852,000	-	-	32,852,000
Unquoted	-	-	748,940,996	748,940,996
<i>Assets for which fair values are disclosed</i>				
Loans and receivables				
Refundable deposits	-	140,587,652	-	140,587,652

<i>Liabilities for which fair values are disclosed</i>				
Installment payable	-	478,062,125	-	478,062,125
Deposits from tenants	-	1,157,374,927	-	1,157,347,927
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	41,424,316	-	-	41,424,316
Investment properties:	-	-	-	-
Land	-	-	13,233,022,951	13,233,022,951
Buildings	-	-	19,278,053,097	19,278,053,097
Financial assets at FVOCI:				
Quoted	33,455,000	-	-	33,455,000
Unquoted	-	-	748,940,996	748,940,996
<i>Assets for which fair values are disclosed</i>				
Loans and receivables				
Refundable deposits	-	76,104,635	-	76,104,635
<i>Liabilities for which fair values are disclosed</i>				
Installment payable	-	541,161,733	-	541,161,733
Deposits from tenants	-	1,093,983,483	-	1,093,983,483

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 2019 and 2018.

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.

*(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 2019 and 2018, there were no changes in the estimated useful lives of property and equipment. As at September 30, 2019 and December 31, 2018, property and equipment have a carrying value of P13.06 billion and P13.75 billion, respectively.

*(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 using the output method by reference to the estimated completion of a physical proportion of the contract work. The percentage-of-completion at each reporting date is estimated by the project development engineers and are independently reviewed by the Group's third party consultants.

The Group has following on-going projects with its percentage of completion as at September 30, 2019 and December 31, 2018:

<b>Projects</b>	<b>2019</b>	<b>2018</b>
The Rise Makati	88%	65%
Shang Wack Wack	12%	1%
Horizon Homes at Shangri-La at the Fort	Completed	Completed
Shang Salcedo Place	Completed	Completed

*(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) -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.

*(d) Recoverability of investments in associates and a joint venture*

The Group's investments in associates and a joint venture 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.

The Group's interest in SLPI was reclassified as investment in subsidiary from investment in an associate as a result of PSI's acquisition of the remaining 50% interest in SLPI in 2018.

*(e) 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 September 30, 2019 and December 31, 2018, based on management's assessment and judgment, there is no impairment of goodwill since the recoverable amount of the CGU is higher than the carrying value.

As at December 31, 2018, 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 2019.

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.



*(f) Impairment of non-financial assets*

The Group reviews its non-financial assets, such as investments in associates and in a joint venture, real estate development projects, and property and equipment, 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.

*(g) 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.

*(h) 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.

*(i) 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 financial assets at FVOCI/AFS 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.

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

*(a) New standards, amendments and interpretations adopted by the Group*

#### **PFRS 15 adoption**

PFRS 15, '*Revenue from contracts with customers*', replaces 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.

(i) Accounting for revenue from condominium sales

A number of interpretations were adopted by the Group in conjunction with PFRS 15 in relation to revenue from condominium sales.

PIC Q&A 2016-04, '*Application of PFRS 15 "Revenue from contracts with customers" on sale of residential properties under pre-completion contracts*', clarifies that sales of residential properties under pre-completion stage meet the criteria for revenue recognition over time.

PIC Q&A 2018-12, '*PFRS 15 implementation issues affecting the real estate industry*', clarifies how real estate developers in the Philippines will adopt the requirements of PFRS 15. The interpretation covers the following implementation issues:

- Elements of a contract for a sale of real property that meet the requirements of PFRS 15
- Performance obligations in a contract to sell
- Assessing existence of significant financing component in a contract for a sale of real property
- Determining measure of progress in revenue from sale of real property
- Accounting for benefits given to sales agents
- Accounting for common usage service area (CUSA) charges

Based on the interpretation, the Group assessed that it is necessary to adjust the transaction price for the effects of a significant financing component, but the Group decided not to adjust the transaction price and availed the relief issued by the Securities and Exchange Commission (SEC) per Memorandum Circular No. 3-2019 dated February 8, 2019. The SEC provided relief to the real estate industry by deferring the application of the provisions of PIC Q&A 2018-12 for a period of three (3) years until January 1, 2021. The Group is currently assessing the impact of accounting for significant financing component on its consolidated financial statements.

PIC Q&A 2018-14, '*PFRS 15 - Accounting for Cancellation of Real Estate Sales*', clarifies that repossessed real properties should be initially measured by real estate developers at either (1) fair value less cost to repossess or (2) fair value plus repossession cost. Under both approaches, the Group should consider payments to buyers required under the Maceda Law and the write-off of any unamortized portion of cost of obtaining a contract in its determination of gain or loss from repossession. The Group decided to avail the relief issued by the SEC per Memorandum Circular No. 3-2019 dated February 8, 2019 deferring the application of the provisions of PIC Q&A 2018-14 for a period of three (3) years until January 1, 2021. The Group is currently assessing the impact of this interpretation on its consolidated financial statements.

(ii) Accounting for CUSA charges to lessees under mall and hotel operations

PIC Q&A 2018-12-H, '*PFRS 15 implementation issues affecting the real estate industry*', includes guidance on accounting for CUSA charges. This clarifies that for CUSA and air conditioning charges to tenants, the entities have the ability to direct the use of and obtain substantially all the remaining benefits from the services being delivered to the tenants. The entities can direct the maintenance, security, and cleaning and administrative services and therefore, in this arrangement, the entity is a principal and should recognize revenue. The Group decided to avail the relief issued by the Securities and Exchange Commission (SEC) per Memorandum Circular No. 3-2019 dated February 8, 2019. The SEC provided relief to the real estate industry by deferring the application of the provisions of PIC Q&A 2018-12-H for a period of three (3) years until January 1, 2021.

In summary, the adoption of PFRS 15 resulted in changes in accounting policies but did not result in material adjustments to the amounts previously recognized in the consolidated financial statements. As permitted under the transitional provisions of this standard, the transaction price allocated to partially unsatisfied performance obligation as at December 31, 2017 is not disclosed.

### PFRS 9 adoption

*PFRS 9, 'Financial instruments'* replaces the provisions of PAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group's adoption of this standard for the period beginning January 1, 2018 resulted in a change in accounting policies. However, the adoption did not have a significant impact on the amounts recognized in the consolidated financial statements.

There is no impact on the Group's classification and measurement of financial assets. The Group's equity securities previously classified as AFS are still measured at FVOCI following the irrevocable election available under PFRS 9. As a result, assets with a fair value of P513,192,742 were reclassified from available-for-sale financial assets to financial assets at FVOCI and additional fair value gains of P220,500,516 were recorded to investment valuation reserve on January 1, 2018. The changes in fair value of such investments will no longer be reclassified to profit or loss when they are disposed of. All other financial assets previously classified as loans and receivable will remain at amortized cost as these financial assets are mainly held to collect and held solely for the payment of principal and interest. There will also be 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 new hedge accounting rules will align the accounting for hedging instruments more closely with the risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principle-based approach. This has no impact on the consolidated financial statements since the Group has hedging transactions in 2018.

The Group shifted from incurred loss model under PAS 39 to expected credit loss model in the determination of impairment provisions for financial assets not carried at fair value through profit or loss upon adoption of PFRS 9. The adoption however, did not result in significant adjustments on the level of allowance for impairment recognized in the consolidated financial statements.

PFRS 9 was generally adopted without restating comparative information. The adjustment arising from the remeasurement of unquoted equity securities which were previously carried at cost are therefore recognized in the opening balance sheet on January 1, 2018. The table below shows the adjustments recognized for each individual line item affected by the changes.

	December 31, 2017, as previously presented	PFRS 9	January 1, 2018, restated
<i>Non-current assets</i>			
Financial assets at fair value through other comprehensive income, net	-	773,265,996	773,265,996
Available-for-sale financial assets, net	513,192,742	(513,192,742)	-
<i>Non-current liabilities</i>			
Deferred income tax liabilities, net	(7,179,085,729)	(39,572,738)	(7,218,658,467)
<i>Equity</i>			
Other comprehensive income (loss)	9,795,092	(220,500,516)	(210,705,424)

### Other amendments and interpretations

The following amendments and interpretations are adopted but did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods:

- Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions
- Annual Improvements 2014-2016 cycle
- Amendments to PAS 40, Transfers to Investment Property
- Interpretation 22, Foreign Currency Transactions and Advance Consideration
- PIC Q&A 2018-11, Classification of land by real estate developer
- PIC Q&A 2018-15, PAS 1 - Classification of advances to contractors in the nature of prepayments: current vs. non-current
- PIC Q&A 2019-01, Accounting for service charges under PFRS 15, Revenue from Contracts with Customers

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

The following new accounting standards and interpretations are not mandatory for December 31, 2018 reporting period and have not been early adopted by 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 a material 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.

### Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)

It has been clarified previously that PAS 12, not PAS 37, Provisions, Contingent Liabilities and Contingent Assets, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax

return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation will not have a material impact on the consolidated financial statements of the Group.

#### Other amendments

Likewise, the following amendments are not mandatory for December 31, 2018 reporting period and have not been early adopted by the Group:

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures (effective January 1, 2019)
- Amendments to PFRS 9, Prepayment Features with Negative Compensation (effective January 1, 2019)
- Annual Improvements 2015-2017 cycle (effective January 1, 2019)
- Amendments to PAS 19, Plan Amendment, Curtailment or Settlement (effective January 1, 2019)
- Amendments to PFRS 3, Business Combinations (effective January 1, 2020)

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

### **8.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as at September 30, 2019 and December 31, 2018. 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 %	
	2019	2018
Property development:		
Shang Properties Realty Corporation (SPRC)	100	100
Shang Property Developers, Inc. (SPDI)	100	100
The Rise Development Corporation, Inc. (TRDCI)	100	100
Shang Wack Wack Properties, Inc. (SWWPI)	100	100
Hotel operation:		
Shang Global City Properties, Inc. (SGCPI)	60	60
Leasing:		
SPI Parking Services, Inc. (SPSI)	100	100
Shangri-la Plaza Corporation (SLPC)	100	100
KSA Realty Corporation (KSA)	70.04	70.04
Real estate:		
Ivory Post Properties, Inc. (IPPI)	100	100
KPPI Realty Corporation (KRC)	100	100
Martin B. Properties, Inc. (MBPI)	100	100
New Contour Realty, Inc. (NCRI)	100	100
Perfect Sites, Inc. (PSI)	100	100
Shang Fort Bonifacio Holdings, Inc. (SFBHI)	100	100
Shang Global City Holdings, Inc. (SGCHI)	100	100
Property management:		
KPPI Management Services Corporation (KMSC)	100	100
Shang Property Management Services, Inc. (SPMSI)	100	100
Sky Leisure Properties Inc. (SLPI)	100	50
Other supplementary business:		
Gipsey, Ltd. (Gipsey)	100	100
Silver Hero Investments Limited (SHIL)	100	100
EPHI Logistics Holdings, Inc. (ELHI)	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.

The Group also assesses the existence of control where it does not have more than 50% of the voting power by virtue of de facto control. De facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group control over the investee.

Whenever the Group obtains control of one or more other entities, it assesses whether the acquired group of net assets constitutes a business. In assessing whether a transaction is an acquisition of a business or assets, the Group identifies the elements in the acquired group,

assesses the capability of the acquired group to produce outputs, and assesses the capability of a market participant to produce outputs if missing elements exist. If the assets acquired are not a business, the Group accounts for the transaction or other event as an asset acquisition.

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.

If the excess of the consideration is 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 is 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 and Joint ventures***

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.

Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

When the Group increases its stake in an existing associate and gains control in that investment, the investment becomes a subsidiary. When the entity obtains control of the investment (an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee) that was previously accounted for under equity method, the carrying amount of the investment in associate is derecognized and the assets and liabilities acquired are recognized in the Group's consolidated financial statements at acquisition date.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

Dilution gains and losses arising in investments 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**

##### *Accounting policies applied from January 1, 2018*

##### **34.5.1 Classification of financial assets (PFRS 9)**

The Group classifies its financial assets in the following measurement categories:

- ☐ those to be measured subsequently at fair value either through other comprehensive income ("OCI") or through profit or loss, and
- ☐ those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

##### **8.5.2 Measurement of financial assets (PFRS 9)**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income, net, together with foreign exchange gains and losses. Impairment losses are presented in other general and administrative expenses in the consolidated statement of total comprehensive income.

The Group's financial assets at amortized cost consist of cash and cash equivalents, trade and other receivables and refundable deposits classified under other non-current assets in the consolidated statement of financial position.

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other income, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income, net, and impairment expenses are presented in other general and administrative expenses in the consolidated statement of total comprehensive income.

The Group does not have debt instruments at FVOCI as at September 30, 2019.

- **FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented within other income, net, in the period in which it arises.

The Group does not have debt instruments at FVTPL as at September 30, 2019.

### *Equity instruments*

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such

investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

The Group's financial assets measured at FVOCI represent unquoted shares of stock of related parties and quoted investments in various golf club shares and stocks

Dividends are recognized when the Group's right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably. Dividends are recognized in profit and loss unless they clearly represent recovery of a part of the cost of the investment, in which case they are included in other comprehensive income. Changes in fair value are recognized in other comprehensive income and are never recycled to profit and loss, even if the asset is sold or impaired.

### 8.5.3 Impairment (PFRS 9)

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of counterparties over a period of 36 months before January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has assessed that the impact of forward-looking information on the loss rates applied is immaterial.

Impairment losses on receivables are presented in other general and administrative expenses consolidated statement of total comprehensive income. Subsequent recoveries are credited to other income.

## 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.

The Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized within operating expenses in the consolidated statement of total comprehensive income. When a receivable remains uncollectible after the Group has exerted all legal remedies, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited against other

general and administrative expenses in the consolidated statement of total comprehensive income.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Prior to the adoption of PFRS 9, a provision for impairment of trade 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 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.

## **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 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.

Deposit for a future project represents cash deposit with a third party for a purchase of a property. Deposit for a future project is derecognized upon full payment to the third party. The Group then determines whether the property is to be classified as property held for sale, an investment property, or property and equipment depending on the usage of the property.

### **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.

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, except land rights, 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.

Land rights are not depreciated. 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:

Building and leasehold improvements	25 or lease term, whichever is shorter
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 lives 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 financial assets at FVOCI/AFS 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. 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's unlisted financial assets at FVOCI/AFS financial assets, refundable deposits, installment payable and deposits from tenants are 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.
- 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 asset, 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 consolidated 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**

### *(a) Condominium sales*

#### *Revenue from condominium sales*

The Group develops and sells condominium units. Under a contract to sell a condominium unit, the object is the property itself, which is the normal output of a real estate business. In addition, this contract contains information such as the contracting parties' rights and payment terms, which are essential elements for a valid revenue contract. The Group assesses that contract must be signed by the contracting parties to make it enforceable prior to revenue recognition. Also, the developer assesses the commercial substance of the contract and the probability that it will collect the consideration. 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.

Contracts to sell condominium units are written on a lump sum payment basis or installment basis which include a fixed reservation fee, down payment with installment terms ranging from one to five years, and bank financing for the remaining balance.

The Group satisfies its performance obligation as it develops the property. In accordance with Philippine Interpretations Committee (PIC) 2016-04, the Group considers that the Group's performance does not create the asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date. Therefore, revenue is recognized over time, i.e. as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work. Land and materials delivered on site, such as steels, rebars and elevators, which are yet to be installed/attached to the main structure, are excluded from the percentage-of-completion.

Revenue is measured at the transaction price agreed under the contract, except for contracts where the timing difference between the construction period and payment by the customer exceeds one year. In such contracts, the Group assessed that it is necessary to adjust the transaction price for the effects of a significant financing component as required by PIC Q&A 2018-12, but the Group decided not to adjust the transaction price and availed the relief issued by the SEC per Memorandum Circular No. 3-2019 dated February 8, 2019. The SEC provided relief to the real estate industry by deferring the application of the provisions of PIC Q&A 2018-12 for a period of three (3) years until January 1, 2021. For completed projects, revenue from condominium sales are recognized in full (ie. point in time) once the Group assessed that the contract meets all criteria for revenue recognition.

Any excess (deficit) of collections over the recognized revenue are recognized as "excess billing over revenue" under accounts payable and other current liabilities ("installment contract assets" under Trade and other receivables, net) as shown in the consolidated statement of financial position.

If the criteria in assessing whether revenue can be recognized under a contract to sell are not yet met, cash received from customers are recognized as part of "customers' deposits" under accounts payable and other liabilities.

Cost of condominium sales include upfront costs such as land costs and connection fees, which are accounted for as fulfillment costs, and development costs which contribute to the construction progress of the development project. Fulfillment costs are recognized as contract assets arising from fulfillment costs to the extent that such costs give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered. These costs are included in properties held for sale in the consolidated statement of financial position. Such contract assets are amortized as cost of condominium sales consistent with the revenue recognition method applied, subject to impairment up to the extent that the carrying amount of the asset exceeds (a) the remaining amount of consideration that the Group expects to receive; less (b) direct costs that have not been recognized as expenses. Development costs are recognized as expense as the work to which they relate is performed.

Incremental costs of obtaining a contract to sell condominium units include commissions paid to sales or marketing agents. Fixed monthly living allowance, transportation allowance provided to real estate agents and commissions paid prior to signing of contracts to sell are expensed outright. Commissions paid after signing of contracts are recognized as contract assets arising from costs to obtain a contract presented as 'prepaid commission' under prepaid expenses and other current assets in the consolidated statement of financial position. These are amortized as cost of condominium sales consistent with the revenue recognition method applied.

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 include the estimated development costs to complete the condominium, as determined by the Group'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 consolidated statement of financial position.

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.

Condominium units arising from cancellation of contracts to sell are initially measured by the Group based on its original carrying amount at the time it was sold. The Group decided to avail the relief issued by the SEC per Memorandum Circular No. 3-2019 dated February 8, 2019 deferring the application of the provisions of PIC Q&A 2018-14 for a period of three (3) years until January 1, 2021.

#### Accounting policies applied until December 31, 2017

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 (PIC) Q&A No. 2006-01, the 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.

*(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 advance rental, until the conditions for recognizing rental income are met.

*(c) Hotel operation (PAS 18 and PFRS 15)*

Hotel 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 rental, laundry service, telephone service and health club services. The services rendered are distinct performance obligations, for which prices invoiced to the guests are representative of their stand-alone selling prices. These obligations are fulfilled over time when they relate to room rentals, that is over the stay within the hotel, at a point in time for other goods or services, when they have been delivered or rendered.

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.

CUSA charges to mall tenants are presented as a reduction to costs and expenses in the consolidated statement of total comprehensive income. The Group decided to avail the relief issued by the SEC per Memorandum Circular No. 3-2019 dated February 8, 2019. The SEC provided relief to the real estate industry by deferring the application of the provisions of PIC Q&A 2018-12-H for a period of three (3) years until January 1, 2021.

## **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 consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The consolidated 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.

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 consolidated 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 consolidated 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 consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

#### **8.30 Reclassification**

Advances to contractors and suppliers account, which was previously reported as part of trade and other receivables account, was reclassified to prepaid taxes and other current assets account in the consolidated statement of financial position to conform to the current period presentation. Such reclassification did not impact previously reported net income, retained earnings and cash flows. A third statement of financial position was not presented since it did not impact total current assets and based on the qualitative assessment of the Group.

**SHANG PROPERTIES, INC. AND SUBSIDIARIES**

**AGING OF RECEIVABLES**

As of September 30, 2019

TENANTS	TOTAL RECEIVABLES	CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS
Mall Tenants	195,316,295	182,835,344	3,726,392	2,381,506	1,617,829	4,755,223
EDSA Shangri-La Hotel & Resort	27,612,977	9,155,350	18,457,628	-	-	-
TSFT Commercial Space	300,640	58,745	241,895	-	-	-
TECC Tenants	20,174,113	4,165,312	3,196,318	2,609,898	10,202,585	-
Third Parties	71,821,900	71,821,900	-	-	-	-
Installment Contracts Receivables	3,518,447,299	3,518,447,299	-	-	-	-
	3,833,673,224	3,786,483,950	25,622,233	4,991,404	11,820,413	4,755,223

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

  
KARLO MARCO P. ESTAVILLO  
Treasurer