

## COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

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

Atty. Federico G. Noel, Jr.

(Contact Person)

3702700

(Company Telephone Number)

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R	e	p	l	y
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(Form Type)

Month Day  
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Dept. Requiring this Doc.

Total No. of Stockholders

Total No. of Stockholders

Not applicable

Amended Articles Number/Section

Total Amount of Borrowings

Domestic

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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STAMPS

Remarks: Please use BLACK ink for scanning purposes.

5 March 2013

**SECURITIES AND EXCHANGE COMMISSION**  
SEC Building, EDSA,  
Mandaluyong City



Thru: **Dir. Justina Callangan**  
Corporate Finance Department

Re: **SHANG PROPERTIES, INC. ("SPI")**

Gentlemen:

We write to respond to your letter dated 10 February 2014, directing SPI to address the deficiencies your Office has noted in SPI's ACGR submission.

On the matter of SPI's vision and mission, the Company reviews the same annually, i.e., during the last meeting of the Board of Directors for each year, along with the BOD's review of the past year and its reckoning of the Company's prospects and challenges for the incoming year.

With respect to the signatory for the ACGR, the Company has yet to find a suitable replacement for the previously resigned CEO. Rest assured that the Company is on a continuous lookout for the best candidate to lead it in the coming years.

Please find attached the Company's Revised ACGR, reflecting its response above on the matter of the review of the Company's mission and vision.

Very truly yours,

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

**A. BOARD MATTERS**

**1. BOARD OF DIRECTORS**

*Number of Directors per the Company's Articles of Incorporation:*

Pursuant to Article SIXTH of the Company's Articles of Incorporation, the number of directors of the Company shall be fifteen (15).

*Actual Number of Directors for the Year:*

For the fiscal year 2012-2013, the Company has 15 members of the Board of Directors.

*(a) Composition of the Board*

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, Identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)	Elected when (Annual/Special Meeting)	No. of years served as director
Edward Kuok Khoon Loong	NED			03.31.92	19 June 2002	AGM	21 yrs. 2 mos.
Alfredo C. Ramos***	NED			08.11.88	- do -	AGM	24 yrs. 9 mos
Cynthia R. Del Castillo	NED			06.28.01	- do -	AGM	11 yrs 11 mos
Vicente P. Formoso***	Retired as of 30 Jan 2013				- do -	AGM	
Alexandra R. Padilla***	NED			05.03.06	- do -	AGM	7 yrs
Benjamin I. Ramos***	NED			08.26.10	- do -	AGM	2 yrs 9 mos
Wilfred Woo	ED			08.23.11	- do -	AGM	1 yr 9 mos.
Danila Regina I. Fojas	ED			06.13.02	- do	AGM	7 yrs 11mos.
Kin Sun Andrew Ng	ED			06.16.05	- do -	AGM	13 yrs 6 mos
Federico G. Noel, Jr.	ED			11.15.99	- do -	AGM	11 yrs 11 mos.
Wilkie Lee	NED			06.18.08	- do -	AGM	4 yrs 11 mos
Johnny O. Cobankiat	NED	Nominee of Ideal Sites & Properties, Inc.	Ideal Sites and Properties, Inc.	08.14.07	- do -	AGM	5 yrs 9 mos
Antonio O. Cojuangco	NED	- do -		08.14.07	- do -	AGM	5 yrs 9 mos



George L. Go	NED	- do -		08.14..07	- do -	AGM	5 yrs 9 mos
Ho Shut Kan	NED			06.23.10	- do -	AGM	2 yrs 11 mos

**(b) Corporate governance policy adopted by the Board / Respect for the Rights of Shareholders and Stakeholders**

The Board of Directors and the Company are committed in their observance of corporate governance principles. The Board ensures that such commitment is continually reflected in the policies, strategies and directions taken by the Board and by the Company. The basic principles of governance of fairness, transparency, and accountability are duly observed in the Company's dealings with its shareholders and stakeholders, and a culture of good governance is encouraged within the Company's ranks. Thus, regular disclosure duties to the Securities and Exchange Commission and the Philippine Stock Exchange are also observed studiously.

The Board and the Company also recognize that a key part of governance is its open and effective engagement with its shareholders and stakeholders, so that measures are in place to assure open channels of communications. Thus, shareholders can raise comments on the performance and future directions of the Company during the annual stockholders meetings; annual results are distributed to the stockholders and disclosed to the public; the Company's website features various information about the Company and its operations, directions, disclosures, and financial strength, as well as encourages feedback from shareholders and the public alike.

The Board and the Company ensure that the rights of stockholders as provided by law and regulation are respected. This respect for the Company's shareholders is further enshrined in Article 6 (A) and (B) of the Company's Manual of Corporate Governance, to wit:

- "A) The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:
- (i) Right to vote on all matters that require their consent or approval;
  - (ii) Pre-emptive right to all stock issuances of the corporation;
  - (iii) Right to inspect corporate books and records;
  - (iv) Right to information;
  - (v) Right to dividends; and
  - (vi) Appraisal right.
- B) The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the Bylaws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the

stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation."

**(c) Frequency of Board review of the Company's mission and vision**

The Company reviews its mission and vision annually, i.e., during the last meeting of the Company's Board of Directors for each year, along with the Board's review of the past year and its reckoning of the Company's prospects and challenges for the incoming year. (Revised on 03 March 2014, per SEC letter dated 10 February 2014)

**(d) Directorships in other companies**

**(i) Directorships in the Company's Group**

Following are the members of the Company's Board of Directors who hold the office of director in other companies within the Group (parent, subsidiaries, associates and joint ventures of the Company):

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Edward Kuok Khoon Loong	Brown Swallow Development Corp., BOFRI Holdings, Inc., Green Mangrove Realty, Inc., Ideal Sites & Properties, Inc., Kuok Consultancy, Inc., Kerry Philippines, Inc. and Minot Phil Holdings, Inc.	Brown Swallow Development Corp., BOFRI Holdings, Inc., Kuok Consultancy, Inc. and Minot Phil Holdings, Inc. -Chairman  Kerry Philippines, Inc., Green Mangrove Realty, Inc., Ideal Sites & Properties, Inc., and Kerry Philippines, Inc. Brown Swallow Development Corp., BOFRI Holdings, Inc., Kuok Consultancy, Inc. and Shangri-La Plaza Corporation - NED
Alfredo C. Ramos***	Shangri-La Plaza Corporation	NED / Vice Chairman
Alexandra Ramos - Padilla***	Shangri-La Plaza Corporation	NED
Wilfred Woo	Exemplary Ventures & Interests, Inc., KPPI Realty Corp., New Contour Realty, Inc., Perfect Sites, Inc. and Shangri-La Plaza Corporation	Perfect Sites, Inc.  Exemplary Ventures & Interests, Inc., KPPI Realty Corp., New Contour Realty, Inc., , KSA Realty Corporation and The Enterprise Center



		<p>Condominium Corporation - (Non-Executive Director)</p> <p>Perfect Sites, Inc. and Shangri-La Plaza Corporation - (Executive Director)</p>
Danila Regina I. Fojas	KSA Realty Corp., Shangri-La Plaza Corporation, and The Enterprise Center Condominium Corporation	<p>Shangri-La Plaza Corporation –ED</p> <p>KSA Realty Corp. and The Enterprise Center Condominium Corporation - NED</p>
Kin Sun Andrew Ng	<p>Beachfront Holdings, Inc., Boracay Beachfront Properties, Inc., BOFRI Holdings, Inc., Clavall Properties, Inc., Clavall Realty Corp., SPI Parking Services, Inc., Edsa Shangri-La Hotel &amp; Resort, Inc., EPHI Logistics Holdings, Inc., Exemplary Ventures &amp; Interests, Inc., Fort Bonifacio Shangri-La Hotel, Inc., Ideal Sites &amp; Properties, Inc., Ivory Post Properties, Inc., Kuok Consultancy, Inc., KPPI Realty Corporation, KPPI Management Corp., Kerry Philippines Inc., Mactan Shangri-La Hotel &amp; Resort, Inc., Mactan Beachfront Resources, Inc., Martin B. Properties, Inc., Minot Phil Holdings, Inc., Makati Shangri-La Hotel &amp; Resort, Inc. (doing business under the name and style of Makati Shangri-La Manila and Shangri-La's Boracay Resort &amp; Spa), New Contour Realty Inc., Perfect Sites, Inc., KSA Realty Corporation, Shangri-La Plaza Corporation, Shang Property Developers, Inc., Shang Property Management Services, Inc., The St. Francis Shangri-La Place Condominium Corporation, Shang Fort Bonifacio Holdings, Inc., Shang Global City Properties, Inc., Shang Global City Holdings, Inc., The Enterprise Center Condominium Corporation, Shang Properties Realty Corporation and The Shang Grand Tower Condominium Corporation</p>	<p>Beachfront Holdings, Inc., Boracay Beachfront Properties, Inc., BOFRI Holdings, Inc., Clavall Properties, Inc., Clavall Realty Corp., SPI Parking Services, Inc., EPHI Logistics Holdings, Inc., Exemplary Ventures &amp; Interests, Inc., Fort Bonifacio Shangri-La Hotel, Inc., Ideal Sites &amp; Properties, Inc., Ivory Post Properties, Inc., Kuok Consultancy, Inc., KPPI Realty Corporation, KPPI Management Corp., Kerry Philippines Inc., Mactan Beachfront Resources, Inc., Martin B. Properties, Inc., Minot Phil Holdings, Inc., New Contour Realty Inc., Perfect Sites, Inc., KSA Realty Corporation, Shangri-La Plaza Corporation, Shang Property Developers, Inc., Shang Property Management Services, Inc., The St. Francis Shangri-La Place Condominium Corporation, Shang Fort Bonifacio Holdings, Inc., Shang Global City Properties, Inc., Shang Global City Holdings, Inc., The Enterprise Center Condominium Corporation, Shang Properties Realty Corporation and The Shang Grand Tower Condominium Corporation – (Executive Director)</p> <p>Edsa Shangri-La Hotel &amp; Resort, Inc., Makati Shangri-La Hotel &amp; Resort, Inc. (doing business under the name and style of Makati Shangri-La Manila and Shangri-La's Boracay Resort &amp; Spa) and Mactan Shangri-La Hotel &amp; Resort, Inc.- (Non-Executive Director)</p>
Federico G. Noel, Jr.	<p>Beachfront Holdings, Inc., Boracay Beachfront Properties, Inc., Brown Swallow Development Corp., BOFRI Holdings, Inc., Clavall Properties, Inc., Clavall Realty Corp., SPI Parking Services, Inc., Edsa Shangri-La Hotel &amp; Resort, Inc., EPHI Logistics Holdings, Inc., Exemplary Ventures &amp; Interests, Inc., Fort Bonifacio Shangri-La Hotel, Inc., Green Mangrove Realty Inc., Ideal Sites &amp; Properties, Inc., Ivory Post Properties, Inc., Kuok Consultancy, Inc.,</p>	<p>The St. Francis Shangri-La Place Condominium Corporation,</p> <p>The Enterprise Center Condominium Corporation, Shang Properties Realty Corporation and The Shang Grand Tower Condominium Corporation</p> <p>- Chairman</p> <p>Beachfront Holdings, Inc., Boracay Beachfront Properties, Inc., Brown Swallow Development Corp., BOFRI Holdings, Inc., Clavall Properties, Inc., Clavall Realty Corp., SPI</p>

	KPPI Realty Corporation, KPPI Management Corp., Kerry Philippines Inc., Mactan Shangri-La Hotel & Resort, Inc., Mactan Beachfront Resources, Inc., Martin B. Properties, Inc., Minot Phil Holdings, Inc., Makati Shangri-La Hotel & Resort, Inc. (doing business under the name and style of Makati Shangri-La Manila and Shangri-La's Boracay Resort & Spa), New Contour Realty Inc., Perfect Sites, Inc., KSA Realty Corporation, Shangri-La Plaza Corporation, Shang Property Developers, Inc., Shang Property Management Services, Inc., The St. Francis Shangri-La Place Condominium Corporation, Shang Fort Bonifacio Holdings, Inc., Shang Global City Properties, Inc., Shang Global City Holdings, Inc., The Enterprise Center Condominium Corporation, Shang Properties Realty Corporation and The Shang Grand Tower Condominium Corporation	Parking Services, Inc., Edsa Shangri-La Hotel & Resort, Inc., EPHI Logistics Holdings, Inc., Exemplary Ventures & Interests, Inc., Fort Bonifacio Shangri-La Hotel, Inc., Green Mangrove Realty Inc., Ideal Sites & Properties, Inc., Ivory Post Properties, Inc., Kuok Consultancy, Inc., KPPI Realty Corporation, KPPI Management Corp., Kerry Philippines Inc., Mactan Shangri-La Hotel & Resort, Inc., Mactan Beachfront Resources, Inc., Martin B. Properties, Inc., Minot Phil Holdings, Inc., Makati Shangri-La Hotel & Resort, Inc. (doing business under the name and style of Makati Shangri-La Manila and Shangri-La's Boracay Resort & Spa), New Contour Realty Inc., Perfect Sites, Inc., KSA Realty Corporation, Shangri-La Plaza Corporation, Shang Property Developers, Inc., Shang Property Management Services, Inc., The St. Francis Shangri-La Place Condominium Corporation, Shang Fort Bonifacio Holdings, Inc., Shang Global City Properties, Inc., Shang Global City Holdings, Inc., The Enterprise Center Condominium Corporation, Shang Properties Realty Corporation and The Shang Grand Tower Condominium Corporation - (Executive Director)
Ho Shut Kan	KSA Realty Corporation	NED

**(ii) Directorships in Other Listed Companies**

Following are the members of the Company's Board of Directors who hold the office of director in publicly listed companies outside the Group.

<b>Director's Name</b>	<b>Name of Listed Company</b>	<b>Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.</b>
Edward Kuok Khoo Loong		
Alfredo C. Ramos***	Anglo Philippine Holdings, corp., The Philodrill Corp., Vulcan and Industrial Mining and Development corp., Penta Capital Holdings, Corp., Philippine Seven corp.	
George L. Go	Crown Equities, Inc.	

**(iii) Relationship Within the Company and its Group**

Following are the members of the Company's Board of Directors with relations to significant shareholders in the Company and/or in its Group:



Director's Name	Name of the Significant Shareholder	Description of the relationship
Edward Kuok Khoon Loong		
Alfredo C. Ramos***		
Cynthia R. Del Castillo***		
Vicente P. Formoso***		
Alexandra Ramos - Padilla***		
Benjamin I. Ramos ***		
Wilfred Woo		
Danila Regina I. Fojas		
Kin Sun Andrew Ng		
Federico G. Noel, Jr.		
Ma. Myla Rae M. Santos-Orden		
Wilkie Lee		
Johnny O. Cobankiat		
Antonio O. Cojuangco		
George L. Go		
Ho Shut Kan		

*(iv) Limit on the Number of Board Seats in Other Companies*

Pursuant to the Company's Manual on Corporate Governance, the Board may consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporations. As of the date of the submission of this Report, the Board has not seen the need to impose any such limitation where its directors have been able and continue to diligently and efficiently perform their duties to the Company.

*(c) Shareholding in the Company*

Following is the table showing the security ownership of the Company's Directors as of 15 May 2013:

Class	Name of Beneficial Owner	Number of Direct Shares	Number of Indirect shares / Through (name of record owner)	Percent of Class
Common	Edward Kuok Khoon Loong	808,008		
Common	Alfredo C. Ramos	158 (D)		
Common	Ho Shut Kan	1,570 (D)		
Common	Cynthia Del Castillo	1(D)		
Common	Benjamin I. Ramos	2 (D)		
Common	Maureen Alexandra S. Ramos	1(D)		
Common	Vicente P. Formoso	1(D)		
Common	Federico G. Noel, Jr.	1(D)		
Common	Danila Regina I. Fojas	10 (D)		
Common	Kin Sun Andrew Ng	930,000 (D)		
Common	Wilkie Lee	14,000(D)		
Common	Johnny O. Cobankiat	32,302(D)		
Common	Antonio O. Cojuangco	3,026,964(D)		
Common	George L. Go	573,510(D)		



## 2. Chairman and CEO

### *(a) The roles of Chairman and CEO are separate*

The roles of Chairman of the Board and the Company CEO have always been separate to assure the Company of the benefit of the proper balance of power, decision-making, and accountability. This practice is reflective of the guidelines set forth in Article 3 (C) of the Company's Manual of Corporate Governance which states thus:

"The roles of Chair and CEO should, as much as practicable, be separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. A clear delineation of functions should be made between the Chair and CEO upon their election. If the positions of Chair and CEO are unified, the proper checks and balances should be laid down to ensure that the Board gets the benefit of independent views and perspectives."

For the fiscal Year 2012-2013, the Company's Chairman of the Board is Edward Kuok Khoon Loong. The Company has no CEO at the moment as it is still in the process of carefully evaluating candidates who will assume such a vital position.

### *(b) Roles, Accountabilities, and Deliverables of the Chairman and CEO*

The duties and responsibilities of the Chairman in relation to the Board includes, among others, the following:

- (i) Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;
- (ii) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and
- (iii) Maintain qualitative and timely lines of communication and information between the Board and Management.

The Chairman, overall, is responsible for leadership of the Board and ensuring its effectiveness.

Pursuant to the Company's By-laws, the duties of the Company's CEO includes, among others, the following:

- (i) To preside at the meetings of the Board of Directors and of the stockholders in the absence of the Chairman of the Board of Directors;
- (ii) To initiate and develop corporate objectives and policies and formulate long range projects, plans, and programs for the approval of the Board of Directors, including those for executive training, development, and compensation;
- (iii) To have general supervision and management of the business affairs and property of the Corporation;

- (iv) To ensure that the administrative and operational policies of the Corporation are carried out under his supervision and control;
- (v) Subject to guidelines prescribed by law, to appoint, remove, suspend, or discipline employees of the Corporation, prescribe their duties, and determine their salaries;
- (vi) To oversee the preparation of the budgets and the statements of accounts of the Corporation;
- (vii) To prepare such statements and reports of the Corporation as may be required of him by laws;
- (viii) To represent the Corporation at all functions and proceedings
- (ix) To execute on behalf of the Corporation all contracts, agreements and other instruments affecting the interests of the Corporation which will require the approval of the Board of Directors, except as otherwise directed by the Board of Directors;
- (x) To make reports to the Board of Directors and stockholders;
- (xi) To sign certificates of stock; and
- (xii) To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

### **3. *Plan for the Succession of the CEO and the Top Key Management Positions***

There is currently no written succession plan for the Company's CEO and top key management positions. However, every anticipated vacancy is carefully considered, and candidates for replacements are evaluated by the Board. In the absence of a CEO, the Company's Executive Committee capably ensures the smooth implementation of the Company's policies, directions, strategies, and day to day business.

### **4. *Other Executive, Non-Executive and Independent Directors***

While there is no written code specifying preferred professional fields, the Company has, so far, ensured that the members of the Board of Directors have diverse experiences and expertise to better enrich its pool of governors. It is the Company's view that such diversity of discipline (albeit disciplines with some relation or relevance to the Company's industry) will work to better benefit the Company in the formulation and pursuit of its policies, strategies, directions, and risk management methods and options.

Several of the Company's non-executive directors have both experience and expertise in the Company's industry, i.e., the real estate industry.

A director's office is one of trust and confidence. Thus, any director of the Company, whether executive or non-executive, independent or regular is expected to act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He is also expected to exercise leadership, prudence and integrity in directing the corporation towards sustained progress. A director should also observe the following norms of conduct:



- (i) conduct fair business transactions with the corporation, and ensure that his personal interest does not conflict with the interests of the corporation.

The basic principle to be observed is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position.

A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the corporation, or stands to acquire or gain financial advantage at the expense of the corporation.

- (ii) Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.

A director should devote sufficient time to familiarize himself with the corporation's business. He should be constantly aware of and knowledgeable with the corporation's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.

- (iii) Act judiciously.

Before deciding on any matter brought before the Board, a director should carefully evaluate the issues and, if necessary, make inquiries and request clarification.

- (iv) Exercise independent judgment.

A director should view each problem or situation objectively. If a disagreement with other directors arises, he should carefully evaluate and explain his position. He should not be afraid to take an unpopular position. Corollarily, he should support plans and ideas that he thinks are beneficial to the corporation.

- (v) Have a working knowledge of the statutory and regulatory requirements that affect the corporation, including its articles of incorporation and by-laws, the rules and regulations of the Commission and, where applicable, the requirements of relevant regulatory agencies.

A director should also keep abreast with industry developments and business trends in order to promote the corporation's competitiveness.

- (vi) Observe confidentiality.

A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.

The non-executive directors are expected to devote as much time as is necessary to inform and regularly update themselves of the Company, its sector, and its market. The role of the Company's non-executive directors, among others, is to objectively and competently scrutinize and contribute to the development of the Company's and the management's

strategies, directions, overall performance. The non-executive directors should independently satisfy themselves of the Company's financials, internal controls and risk management systems, and the Company's compliance with best practices, as with prevailing corporate governance imperatives. The non-executive directors fulfil a balancing role vis-à-vis the executive directors of the Company.

The executive directors play a direct role in the day to day operations of the Company. They assume their respective management responsibilities for the benefit of the Company's shareholders and stakeholders, and directly assure that the Company is on track with its expressed strategies, directions, and goals, as with the imperatives of proper financial and risk management, and corporate governance.

The Company observes the Philippines laws and SEC's definition of who should qualify as an independent director of the Company. Insofar as giving meaning to the role of an independent director, the Company encourages the independent views expressed by its independent directors to foster a richer discourse on matters concerning the Company.

There is no term limit provided in the Company's By-laws for its independent directors. However, the Company will ensure compliance with the SEC Memorandum Circular imposing term limits on independent directors of companies.

## **5. *Changes in the Board of Directors (Executive, Non-Executive, and Independent Directors)***

### ***(a) Resignation***

One of the Executive Directors of the Company, Mr. Vicente Formoso resigned from the Board on 31 January 2012 on account of his retirement from the Group. The Board has not elected any replacement for Mr. Formoso.

### ***Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension***

### ***(b) Selection/Appointment/Reappointment of Executive Directors, Non-Executive Directors, Independent Directors***

The Board of Directors are elected during each regular meeting of the stockholders of the Company, and shall hold office for one (1) year until their successors are elected and qualified. Directors are re-elected the Board upon getting the required number of votes for re-election, but in every case, only after the directors have been subjected to the process set out by the Nomination Committee. Save as provided by the SEC memorandum Circular limiting the number of terms that may be served consecutively by an independent director, there are no term limits set by the Company for the election of its directors.

The selection of nominees to the Company's Board of Directors is being handled by the Company's Nomination Committee composed of 3 directors, one of whom is an independent director. The Nomination Committee promulgates the guidelines or criteria to govern the conduct of the nominations for both regular and independent directors, executive and non-executive directors which shall include the following:

- (i) The nomination of regular and independent directors shall be conducted by the Nomination Committee prior to a stockholders' meeting. All nominations shall be



signed by the nominating stockholders together with the acceptance and conformity by the would-be nominee.

- (ii) The Nomination Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for regular and independent director/s.
- (iii) After the nomination, the Nomination Committee shall prepare a Final List of Candidates for regular and independent directors which shall contain all the following information about all the nominees:
  - Names, ages, and citizenship of all nominees;
  - Positions and offices that each nominee has held, or will hold if known;
  - Term of office and the period during which the nominee has served as director;
  - Business experience during the past five (5) years;
  - Other directorships held in SEC reporting companies, naming each company;
  - Family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons chosen by the company to become directors or executive officers;
  - Involvement in legal proceedings, i.e., a description of any of the following events that occurred during the past five (5) years up to the latest date that are material to an evaluation of the ability of integrity of any director, any nominee for election as director, executive officer, underwriter or control person of the company;
  - Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
  - Any conviction by final judgment, including the nature of the offense, in a criminal proceedings, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
  - Being subject to any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
  - Being found by a domestic or foreign of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.
  - Disclosure if owning directly or indirectly as record and/or beneficial owner of any class of the company's voting securities;
  - Disclosure of owning voting trust of more than 5% of the company's securities; and
  - Any such other information as may be required to be disclosed by the Securities and Exchange Commission although not expressly provided for above.
- (iv) The Final List of Candidates shall be finalized by the Nomination Committee no later than the date at which the Company is required to submit its preliminary

information statement to the Securities and Exchange Commission. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as regular and independent directors. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

**(c) *Disqualifications of Directors***

The Company's By-Laws provides for the Qualification and Disqualification of Independent Director, to wit: Any stockholder having at least one (1) share registered in his name may be elected Independent Director, provided, however, that no person shall qualify or be eligible for nomination or election as Independent Director if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged:

- (i) If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of any corporation (other than one in which the corporation owns at least 40% of the capital stock) engaged in the business which the Board of Directors, by at least three-fourths vote, determines to be competitive or antagonistic to that of the Corporation; or
- (ii) If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any other corporation or entity engaged in any line of business of the Corporation, when in the judgment of the Board of Directors, by at least two-thirds (2/3) vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or
- (iii) If the Board of Directors, in the exercise of its judgment in good faith, determine by at least two-thirds (2/3) vote that he is the nominee of any person set forth in (i) or (ii) above.

In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board of Directors may take into account such factors as business and family relationship.

The Company's Manual of Corporate Governance also provides for the grounds for the permanent and/or temporary disqualification of a director of the Board, thus:

**Permanent Disqualification**

The following shall be grounds for the permanent disqualification of a director:

- (i) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;



- (ii) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- (iii) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- (iv) Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;
- (v) Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;
- (vi) Any person judicially declared as insolvent;
- (vii) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (i) to (v) above;
- (viii) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.

#### Temporary Disqualification

The Board may provide for the temporary disqualification of a director for any of the following reasons:

- (i) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.

- (ii) Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.
- (iii) Dismissal or termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.
- (iv) If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
- (v) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

**(d) Removal / Vacancy in the Board**

Pursuant to the Company's By-laws, any vacancy occurring in the Board of Directors other than by removal by the stockholders or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, the vacancy must be filled by the stockholders at a regular or special meeting called for that purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

Any directorship to be filled by reason of an increase in the number of directors shall be filled only by an election at a regular or at a special meeting of stockholders duly called for the purpose, or in the same meeting authorizing the increase of directors if so stated in the notice of the meeting.

The vacancy resulting from the removal of a director by the stockholders in the manner provided by law may be filled by election at the same meeting of stockholders without further notice, or at any regular or at any special meeting of stockholders called for the purpose, after giving notice as prescribed in these By-Laws.

**Voting Result of the Last Annual General Meeting Held on 19 June 2012**

<i>Name of Director</i>	<i>Votes Received</i>
Edward Kuok Khoon Loong	<i>* all the directors were unanimously elected with 87.01% of the votes present during the meeting</i>
Alfredo C. Ramos***	
Cynthia R. Del Castillo***	
Vicente P. Formoso***	
Alexandra Ramos - Padilla***	
Benjamin I. Ramos ***	
Wilfred Woo	



Danila Regina I. Fojas	
Kin Sun Ng	
Federico G. Noel, Jr.	
Wilkie Lee	
Johnny O. Cobankiat	
Antonio O. Cojuangco	
George L. Go	
Ho Shut Kan	

**6. Orientation and Education Program**

(a) Upon the election of a new member of the Board, a full briefing will be given both by the Board and the Management Team of the Company. The new directors will be fully apprised of all relevant information with respect to the nature of the Company's business, its organization, operations, etc.

(b) Some of the members of the Board of Directors have attended seminars on corporate governance and money laundering.

(c) At present, the Company has not institutionalized a continuing education program for directors.

**B. CODE OF BUSINESS CONDUCT AND ETHICS**

(1) *Following are the Company's policies with respect to the following items relating to business conduct and ethics*

***Conflict of Interest***

With respect to the directors, the Company's policy as set out in its Manual of Corporate Governance is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position. A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the corporation, or stands to acquire or gain financial advantage at the expense of the corporation.

With respect to Officers/Directors (including spouses/children/siblings/parents), The Company, as a general rule, discourages transactions with Officers and Directors and their spouses/children/siblings/ parents. Where such a transaction arises, the Company takes deliberate care in ensuring that the same fosters no conflict of interest, and is not prejudicial to the Company. Material transactions of such nature are duly disclosed to the Board for the latter's scrutiny and approval. Disclosure obligations required by law and relevant regulation are also duly complied with by the Company.

With respect to all employees of the Company, Senior Management and employees alike, the Company's Code of Business Ethics specifically provides for the following with respect to conflict of interest situations:

- i) No employee shall have direct or indirect financial or business interest in the business of any supplier, contractor, or competitor of the Company.
- ii) No employee shall accept a position as a officer or director or consultant of an outside business concern (except professional or civic organizations or family businesses which have no relationship of any kind with the Company) unless approved by the General Manager and President.
- iii) No employee, personally or through subordinates or others, shall influence any business transaction between the Company and any outside company in which that employee has a financial interest or involvement, or in which an employee may stand to have financial or personal gain, or when the outside company employs any of the Company employee's relatives.
- iv) No employee shall accept any salary, fee, commission or other forms of compensation, or any other things of value from any supplier, contractor, competitor or other business partners. The only exception to this are : minor items such as desk calendars, diaries, and other small items of minor value which are promotional in nature; minor gifts to an employee given during special occasion such as birthday, Christmas; gifts/items given to the Company during special occasion which are clearly intended to be raffled off to the employees.

#### ***Conduct of Business and Fair Dealings***

The Company mandates that all its directors, officers, and employees observe ethical business practices in all of their dealings with the Company and with third parties such as contractors, suppliers, customers, creditors, regulators, etc. This mandate is enshrined in the Company's Code of Business Ethics and in the Company's Manual of Corporate Governance, aspects of which are extensively discussed in other items of this disclosure

#### ***Receipt of Gifts From Third Parties***

Pursuant to the Company's Code of Business Ethics, no employee shall accept any salary, fee, commission or other forms of compensation, or any other things of value from any supplier, contractor, competitor or other business partners. The only exception to this are : minor items such as desk calendars, diaries, and other small items of minor value which are promotional in nature; minor gifts to an employee given during special occasion such as birthday, Christmas; gifts/items given to the Company during special occasion which are clearly intended to be raffled off to the employees.

#### ***Compliance With Laws & Regulations***

The Company, in all of its business transactions and in its operations, adheres to all prevailing relevant laws and regulations. It acquires all required permits and approvals from regulatory authorities as may be relevant to its activities. The company is keenly conscious of its duty as a good corporate citizen to abide by all existing laws and regulations promulgated by national and local bodies.



### ***Respect for Trade Secrets and Non-Public Information***

The Company's Manual of Corporate Governance expressly admonishes a director to keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He is not authorized to reveal any information to unauthorized person without the authority of the Board.

With respect to the Company's employees, the Company's code of Ethics expressly provides in Clause II(B) thereof that all information received and / or acquired in the course of one's employment, during or even after one (1) year from date of separation) with the Company is deemed confidential and the unauthorized disclosure thereof, for financial gain or otherwise, shall be dealt with accordingly.

### ***Use of Company Funds, Assets and Information***

The Company's Code of Business Ethics provides that no employee shall use any assets or resources of the Company or any confidential information with respect to the Company for financial or personal gain of the employee or any other person, interest or entity other than the Company. In this respect, all information received and / or acquired in the course of one's employment, during or even after one (1) year from date of separation) with the Company is deemed confidential and the unauthorized disclosure thereof, for financial gain or otherwise, shall be dealt with accordingly.

### ***Employment and Labor Laws and Policies***

The Company strictly observes all prevailing employment and labor laws as applicable. It is committed to follow the laws and to implement the same with respect to all employees hired by the Company. The Company has not had any complaint for the violation of any labor law or social legislation for the matter.

### ***Disciplinary Action***

The Company believes that every employee, owing to his inherent goodness, is capable of conducting himself uprightly. Thus, self-discipline is considered an integral part of an employee's normal functions in the organization. To complement self-discipline, the Company has developed a Code of Conduct that will clarify acceptable standards of behavior and deviations therefrom.

The responsibility to assist an employee to act in conformance with the acceptable standards of behavior rest on the employee's immediate superior. Accordingly, the responsibility to take corrective actions in cases of deviations therefrom also lies with him. His decision relative thereto shall be given great weight.

In taking corrective action, the employee's immediate superior shall at all times observe due process and be guided by the principle of consistency and fairness. He should moreover decide upon his independent consideration of relevant matters, free from bias, prejudice or influence.

In implementing corrective actions, the immediate superior should make clear to the employee that the intention is not to punish but rather to give the employee the opportunity to learn from his mistakes. In counseling, for example, the superior reminds

and advises the employee of the acceptable standards of behavior and assists the employee in correcting himself. Disciplinary leaves, on the other hand, are meant to relieve the employee from work for a certain number of days, without pay, to allow him to contemplate, plan and adopt a resolution to correct himself. As for dismissals, they are meant to impress on the employee that his act of commission or omission is absolutely inconsistent with the Company's acceptable standards of behavior and whatever damage he has done (tangible or intangible) can no longer be rectified. To correct this, he should learn to abide with the acceptable standards of behavior of his next employer.

HR's primary role is to encourage the development of an atmosphere where positive discipline will be second nature to all employees. However, if there is a necessity for a corrective action, HR shall provide management with administrative support to carry it out. HR shall likewise give both management and employees such advice or counsel as may be needed to ensure that consistency and fairness is duly observed.

The Company recognizes that the promulgation and observance of the Code of Ethics is necessary to protect its interests and the interests of its employees and stakeholders. Disciplinary actions shall be carried out only after investigation with observance of due process, and the severity of the same shall be commensurate to the severity of the violation.

#### ***Whistle Blower***

While there is no provision in the Company's Code of Ethics expressly labelled and identified as a whistle blower provision, the Company has in place a procedure for the processing of complaints brought by any employee against another for unethical behaviour. Such complaints are not discouraged by the Company.

#### ***Conflict Resolution***

Conflicts among Company employees are resolved with the intervention of the Department Heads and the Human Resources Division with the end in view of settling each conflict amicably.

### ***(4) Related Party Transactions***

#### ***(a) Policies and Procedures***

*With respect to the parent Company, joint ventures, subsidiaries, associates, affiliates and substantial shareholders. –*

The Company is cognizant of the good governance and best practices pitfalls of related party transactions. It is for this reason that such transactions are entered into with due care and thorough deliberation, and within the limitations provided by relevant laws and regulations. The Company also ensures that such transactions are fair to the Company and are at arm's length. Such transactions are fully disclosed to the Board and subjected to vigorous scrutiny by the directors, and must be approved by a majority vote of the Board of Directors.

With respect to the directors, the Company's policy as set out in its Manual of Corporate Governance is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the



part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position. A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the corporation, or stands to acquire or gain financial advantage at the expense of the corporation.

With respect to Officers/Directors (including spouses/children/siblings/parents)

The Company, as a general rule, discourages transactions with Officers and Directors and their spouses/children/siblings/ parents. Where such a transaction arises, the Company takes deliberate care in ensuring that the same fosters no conflict of interest, and is not prejudicial to the Company. Material transactions of such nature are duly disclosed to the Board for the latter's scrutiny and approval. Disclosure obligations required by law and relevant regulation are also duly complied with by the Company.

With respect to interlocking directors

Transactions with entities with interlocking directors with the Company are treated in the same manner as the Company views related party transactions. Requirements set forth by law and regulation in cases involving interlocking directors are also duly observed.

**(b) Conflict of Interest**

As of this reporting period, there is no transaction with the Company's Directors/Officers and its significant shareholders which will potentially result in a conflict of interest.

In case any actual conflict of interest shall arise, the same shall be initially resolved through the Company's internal dispute resolution mechanism.

**(5) Family, Commercial, and Contractual Relations**

**(a) Relation of a family, commercial, contractual, or business nature that exists between the holders of significant equity (5%) or more**

Travel Aim Investments B. V. which, as of 30 April 2013, holds 34.61% of the equity of the Company, is a wholly-owned subsidiary of Kerry Properties Limited. Kerry Properties Limited is a Bermuda company incorporated in 1996 and listed on the Hong Kong Stock Exchange. It is controlled by the Kuok Group, and was formed to hold the Hong Kong and Mainland China property investments and developments and infrastructure interests of the Kuok Group. In the Philippines, the interests of the Kuok Group are chaired by Mr. Edward Kuok who is also the Chairman and Director of the Registrant. Mr. Kuok is authorized to vote on behalf of Travel Aim Investments BV during the forthcoming stockholders' meeting.

Ideal Sites and Properties, Inc. (Ideal), which holds 30.76% of the company's equity, is the owner of record of 1,465,615,626 shares. These shares serve as underlying securities to the Philippine Deposit Receipts (PDRs) issued by Ideal. Ideal is a member of the Kuok Group of Companies. Ideal's address is at Level 5, Shangri-la Plaza, EDSA cor. Shaw Blvd., Mandaluyong City. Mr. Kuok is authorized to vote on behalf of Ideal Sites and Properties, Inc. during the forthcoming stockholders' meeting.

- (b) Relation of a family, commercial, contractual, or business nature that exists between the holders of significant equity (5%) and the Company

Same as in (a) above.

- (c) Shareholder Agreements That may Impact on the Control, Ownership, and Strategic Direction of the Company

There is no shareholders agreement pertaining to the Company. There is none that will impact on the control, ownership, and strategic direction of the Company.

**(6) Alternative Dispute Resolution**

In the last three years prior to this reporting period, the Company has not had significant conflicts or differences with its shareholders such as to escalate into a dispute requiring the intervention of third party mediation or requiring internal dispute resolution measures. In certain disputes with third party contractors, suppliers, or providers, the Company has resorted to mediation and/or arbitration proceedings in order to settle disputed issues. To the extent possible, the Company exerts efforts to immediately settle differences so as not to embroil the Company in prolonged proceedings whether in the mediation, arbitration, or court arena.

**C. BOARD MEETINGS AND ATTENDANCE**

**1) Schedule of Board Meetings**

Pursuant to the By-Laws of the Company, the regular meetings of the Board shall be held quarterly. Special meetings may be held upon the request of the Chairman, or in his absence the President, or upon the request of the majority of the directors.

**2) Attendance of Directors**

Board	Name	Date of Election	No. of Meetings Held During the year	No. of Meetings Attended	%
Chairman	Edward Kuok Khoon Loong		5	3	60%
Member	Alfredo C. Ramos		5	4	80%
Member	Alexandra Ramos - Padilla		5	5	100%
Member	Cynthia R. Del Castillo		5	5	100%
Member	Johnny O. Cobankiat		5	5	100%
Member	Benjamin I. Ramos		5	5	100%
Member	Wilfred Woo		5	5	100%
Member	Danila Regina I. Fojas		5	5	100%
Member	Kin Sun Andrew Ng		5	5	100%
Member	Vicente P. Formoso		5	5	100%
Member	Federico G. Noel, Jr.		5	5	100%
Member	Ho Shut Kan		5	3	60%
Member	Wilkie Lee		5	3	60%
Member	George L. Go		5	3	60%
Member	Antonio O. Cojuangco		5	3	60%



**3) *Separate Meeting of Non-Executive Directors***

The non-executive directors meet separately without the executive directors as they deem necessary on the same day scheduled for the Board meetings, before or after the regular full Board meeting.

**4) *Quorum Requirement for Board Decisions***

Pursuant to the By-Laws of the Company, save for cases where Philippine law requires a higher majority vote, a majority of the entire membership of the Board of Directors shall constitute a quorum for the transaction of business; and no corporate act shall be deemed to have been taken by the Board without the affirmative vote of at least a majority of those present during the meeting.

**5) *Access To Information***

- (a) Papers for the Board of Directors meetings are given in advance to the directors at least seven (7) days before the meeting date.
- (b) Board members enjoy independent access to Management and the Corporate Secretary, to enable them to properly fulfil their duties and responsibilities. Thus, in the Company's Manual of Corporate Governance, it is provided thus:

"To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate and timely information about the matters to be taken in their meetings.

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the corporation's expense."

- (c) The role of the Corporate Secretary.

Pursuant to the Company's By-laws, the Corporate Secretary must be a resident and a citizen of the Philippines. He shall be the custodian of and shall maintain the corporate books and records and shall be the recorder of the corporation's formal actions and transactions. He shall have the following specific powers and duties:

- (i) To record or see to the proper recording of the minutes and transactions of all meetings of the directors and the stockholders and to maintain minute books of such meetings in the form and manner required by law;

- (ii) To keep or cause to be kept record books showing the details required by law with respect to the stock certificates of the Corporation, including ledgers and transfer books showing all shares of the Corporation subscribed, issued, and transferred;
- (iii) To keep the corporate seal and affix it to all papers and documents requiring a seal and to attest by his signature all corporate documents requiring the same;
- (iv) To attend to the giving and serving of all notices of the Corporation required by law or these By- Laws to be given;
- (v) To certify to such corporate acts, countersign corporate documents or certificates, and make reports or statements as may be required of him by law or by government rules and regulations;
- (vi) To act as the inspector at the election of directors and, as such, to determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, or consents, determine the result, and do such acts as are proper to conduct the election or vote. The Secretary may assign the exercise or performance of any or all of the foregoing duties, powers and functions to any other person or persons, subject always to his supervision and control;
- (vii) To perform such other duties as are incident to his office or as may be assigned to him/her by the Board of Directors or the President.

In addition to the foregoing, the Corporate Secretary regularly circulates to the Directors updates on relevant statutes and regulations to keep directors abreast of these matters.

- (d) The Company Secretary is a lawyer and is trained in company secretarial services. He is not an accountant. For matters relating to accountancy, the Corporate Secretary is fully supported by the officers and personnel of the Company's Accounting Team.
- (e) There is no formal procedure that has to be observed by Directors to avail themselves of information necessary to be able to allow them to prepare for the Board meetings. The Company's Directors enjoy independent access to the Company's Management and to the Corporate Secretary.

#### **6) External Advice**

There is no formal procedure that has to be observed by Directors to avail themselves of external advice which they may deem necessary to be able to allow them to prepare for the Board meetings. Directors are not prevented by any Company policy to seek such advice, subject only to considerations of confidentiality of transactions and operations.

#### **7) Changes in Existing Policies**

There have been no changes in policy introduced by the Board during its most recent term.



**D. REMUNERATION MATTERS**

**1) Remuneration Process**

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	Fixed salaries are reviewed and approved annually by the Chairman of the Board and the Board of Directors. Salaries are computed in reference to the economic and industry movement.	Fixed salaries are reviewed and approved annually by the Chairman of the Board and the Board of Directors. Salaries are computed in reference to the economic and industry movement.
(2) Variable remuneration	Variable salaries are reviewed and approved annually by the Chairman of the Board and the Board of Directors. Variable salaries are provided taking into consideration factors such as industry competitiveness and market trends.	Variable salaries are reviewed and approved annually by the Chairman of the Board and the Board of Directors. Variable salaries are provided taking into consideration factors such as industry competitiveness and market trends.
(3) Per diem allowance	Allowances are based on actual reasonable expenses.	Allowances are based on actual reasonable expenses.
(4) Bonus	Bonuses are based on the Company's annual performance and individual performance appraisal rating.	Bonuses are based on the Company's annual performance and individual performance appraisal rating.
(5) Stock Options and other financial instruments	Not applicable. The Company does not have a stock option scheme for officers or employees.	Not applicable. The Company does not have a stock option scheme for officers or employees.
(6) Others (specify)	Not applicable.	Not applicable.

**2) Remuneration Policy and Structure for Executive and Non-Executive Directors**

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	The company's remuneration policy and structure is such that it is both internally equitable and externally competitive, subject to the organization's limits in affordability and to each employee's	The remuneration of the executive directors are in the form of salaries, discretionary bonuses, allowances, and other benefits. The salary range is based on its job levels.	An analysis of external economic factors is made such as market trends and industry range.

	qualification and performance.		
Non-Executive Directors	No remuneration is paid to the Company's non-executive directors for their service as such to the Company's Board.	N / A	N / A

The Company's non-executive directors are not given any manner of remuneration for their services as such to the Company's Board. There is thus no remuneration structure that may be submitted for shareholders approval.

### 3) *Aggregate Remuneration*

Complete the following table on the aggregate remuneration accrued during the most recent year:

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	P41,801,383	N / A	N / A
(b) Variable Remuneration	P3,072,366	N / A	N / A
(c) Per diem Allowance	Only reasonable actual expenses are allowed	N / A	N / A
(d) Bonuses	13,589,334		
(e) Stock Options and/or other financial instruments	N / A	N / A	N / A
(f) Others (Specify)	N / A	N / A	N / A
<b>Total</b>			

Other Benefits	Executive Directors	Non-Executive Director (other than Independent directors)	Independent Directors
1) Advances	N / A	N / A	N / A
2) Credit granted	N / A	N / A	N / A
3) Pension Plan/s Contributions	N / A	N / A	N / A
(d) Pension Plans, Obligations incurred	N / A	N / A	N / A
(e) Life Insurance Premium	162,846	N / A	N / A
(f) Hospitalization Plan	102,792	N / A	N / A
(g) Car Plan	8,500,000.00	N / A	N / A
(h) Others (Specify)	N / A	N / A	N / A
<b>Total</b>			



4) **Stock Rights, Options and Warrants**

(a) **Board of Directors**

There is no Company policy entitling, and none of the Company's Directors own or are entitled to stock rights, options or warrants over the Company's shares:

(b) **Amendments of Incentive Programs**

There is no existing Company Policy entitling the Company's directors to an incentive program.

5) **Remuneration of Management**

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Name of Officer/Position	Total Remuneration
Noel C. Neric, VP Property Management	P18,042,875.00
Maria Myla Rae S. Orden, Assistant General Counsel	
Romeo S. Bison , Assistant Corporate Legal Counsel	
Antonio Espino, Group Human Resources Director	
Madeleine Treichler, Marketing Manager	

E. **BOARD COMMITTEES**

1) **Number of Members, Functions, and Responsibilities of the Various Board Committees**

(a) **Executive Committee**

Pursuant to the Company's By-Laws, the Executive Committee shall have five (5) members, all of whom shall be directors. All of the committee members are executive directors. The Executive Committee shall have and may exercise, in the intervals between meetings of the Board of Directors, all of the powers of the Board in the management of the business and affairs of the Corporation, but excluding such powers as are expressly reserved to the Board of Directors under Philippine law, and such power as are reserved in the By-Laws of the Company for action by shareholders. All the actions taken by the Executive Committee shall be submitted to the Board at its next meeting for ratification.

(b) **Nomination Committee**

The Company has a Nomination Committee, which is composed of at least three (3) members and one of whom is an independent director, tasked to review and evaluate the qualifications of all persons nominated to the Board (for both regular and independent directors) and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors. The Nomination Committee does not have an independent charter, but the procedure it is required to observe in the evaluation of nominees to the Board is enshrined both in the Company's By-laws and Manual of Corporate Governance, thus:

#### "Nomination of Independent Director/s

The nomination of independent directors shall be conducted by the Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominee.

The Nomination Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.

After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the following information about all the nominees for independent directors:

- (1) Names, ages, and citizenship of all nominees;
- (2) Positions and offices that each nominee has held, or will hold if known;
- (3) Term of office and the period during which the nominee has served as director;
- (4) Business experience during the past five (5) years;
- (5) Other directorships held in SEC reporting companies, naming each company;
- (6) Family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons chosen by the company to become directors or executive officers;
- (7) Involvement in legal proceedings, i.e., a description of any of the following events that occurred during the past five (5) years up to the latest date that are material to an evaluation of the ability of integrity of any director, any nominee for election as director, executive officer, underwriter or control person of the company:
  - (a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
  - (b) Any conviction by final judgment, including the nature of the offense, in a criminal proceedings, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
  - (c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
  - (d) Being found by a domestic or foreign of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization,



to have violated securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

- (8) Disclosure if owning directly or indirectly as record and/or beneficial owner of any class of the company's voting securities;
- (9) Disclosure of owning voting trust of more than 5% of the company's securities; and
- (10) Any such other information as may be required to be disclosed by the Securities and Exchange Commission although not expressly provided for above.

The Final List of Candidates shall be made available to the Securities and Exchange Commission and to all stockholders through the filing and distribution of the Information Statement, or in such other reports the company is required to submit to the Securities and Exchange Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.

Only nominees whose names appear on the Final List of Candidates shall be eligible for election as independent director/s. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

Except as required in the foregoing, the election of independent directors shall be made in accordance with the standard election procedures of the company or its by-laws.

It shall be the responsibility of the Chairman of the Meeting to inform all stockholders in attendance of the mandatory requirement of electing independent director/s. He shall ensure that an independent director/s are elected during the stockholders' meeting.

Specific slots for independent directors shall not be filled-up by unqualified nominees.

In case of failure of election for independent director/s, the Chairman of the Meeting shall call a separate election during the same meeting to fill up the vacancy.

In case of resignation, disqualification or cessation of independent directorship and only after notice has been made with the Securities and Exchange Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee, otherwise, said vacancies shall be filled by the stockholders in a regular or special meeting called for the purpose. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor-in-office.

### Nomination of Regular Director/s

The nomination of the company's regular (non-independent directors) shall also be subject to the foregoing procedure for the nomination of independent directors."

#### **(c) Audit Committee**

In compliance with the provisions of its Manual of Corporate Governance, the Company has an Audit Committee with at least three (3) directors, who have accounting and finance backgrounds, two of whom are independent directors and another with audit experience. The chair of the Audit Committee is an independent director. The audit committee has adopted its Audit committee Charter which is compliant with the relevant guidelines set out by the SEC. The Audit Committee has the following functions:

- a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;
- b) Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function shall include regular receipt 'from Management of information on risk exposures and risk management activities;
- c) Perform oversight functions over the corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- d) Review the annual internal audit plan to ensure its conformity with the objectives of the corporation. The plan shall include the audit scope, resources and budget necessary to implement it;
- e) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f) Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- g) Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security;
- h) Review the reports submitted by the internal and external auditors;
- i) Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments resulting from the audit



- Going concern assumptions
- Compliance with accounting standards
- Compliance with tax, legal and regulatory requirements.

- j) Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- k) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's annual report;
- l) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee.

The Audit Committee ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.

**(d) Remuneration Committee**

The Company does not have a Remuneration Committee where all matters of remuneration of Company officers and employees are taken up by Management and the Board as a whole.

**2) Committee Members**

**(a) Executive Committee**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Eduard Kuok Khoon Loong	08.28.2001				11 yrs and 9 mos.
Member (ED)	Federico G. Noel, Jr.	08.28.2001				11 yrs and 9 mos.
Member (ED)	Kin Sun Ng, Andrew	08.28.2001				11 yrs and 9 mos.
Member (ED)	Danila Regina I. Fojas	06.22.2011				1 yr and 11 mos.
Member (ED)	Wilfred Woo	06.19.2012				11 mos.

**(b) Audit Committee**

Office	Name	Date of First and Last Appointment	No. of Meetings Held (for FY 2012)	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (NED) (ID)	Johnny Cobankiat	14-Aug-07/ 19-Jun-12	3	3	100%	5 yrs and 8 mos

Co-Chairman (NED)	Alfredo Ramos	06-Aug-07/ 19-Jun-12	3	2	67%	10 yrs and 8 mos
Member (NED) (ID)	George Go	23-Jun-2010/ 19-Jun-12	3	1	33%	2 yrs and 10 mos

***Qualifications of the Audit Committee members.***

**Alfredo C. Ramos** is the Vice Chairman of the Company. He is the Chairman of the Board of Anglo Philippine Holdings, Inc., Anvil Publishing, Inc., Carmen Copper Corporation, NBS Express, Inc. and Vulcan Materials Corporation. He is the Chairman and President of Atlas Consolidated Mining & Development Corporation, The Philodrill Corporation, National Book Store, Inc., Vulcan Industrial & Mining Corporation and United Paragon Mining Corporation. He is also the President of Abacus Book & Card Corporation, Crossings Department Store Corp., Power Books, Inc., and MRT Holdings Inc. He is Vice Chairman of Shangri-La Plaza Corporation, MRT Development Corporation, Metro Rail Transit Corporation and LR Publications, Inc.

**Johnny O. Cobankiat** is President of Co Ban Kiat Hardware, Inc., Ace Hardware, Philippines, and Coby's Marketing Corp. He is Vice Chairman of the Federation of Filipino-Chinese Chamber of Commerce, Director of R. Nubla Securities, Inc. and of the Philippine Hardware Association.

**George L. Go** is the Chairman of Crown Equities, Inc., Healthcare Systems of Asia Philippines, Inc., Skoal Advertising, Inc., and of Asian Alliance Holdings and Dev. Corp. He finished the Advanced Management Program of Harvard Business School, USA and is a graduate of Youngstown University, USA (Bachelor of Economics).

**Josephine Logronio**, Secretary to the Audit Committee.

***The Audit Committee's Responsibility Relative to the External Auditor.***

Pursuant to the Company's Manual of Corporate Governance, the Audit committee shall perform oversight functions over the Company's external auditors. It shall ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions. The Audit Committee is also tasked to Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence.

The Audit Committee also assesses annually the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process

**(c) Nomination Committee**

Office	Name	Date of Appointment	No. of Meetings Held (FOR 2012)	No. of Meetings Attended	%	Length of Service in the Committee
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Chairman (NED)	Eduard Kuok Khoon Loong	23 June 2010	1	1	100%	2 yrs. 11 mos.
Member (NED) (ID)	Antonio Cojuangco	14 August 2007	1	1	100%	5 yrs. 9 mos.
Member (NED)	Cynthia R. del Castillo	18 June 2004	1	1	100%	8 yrs. 11 mos.
Member (ED)	Federico G. Noel, Jr.	18 June 2004	1	1	100%	8 yrs. 11 mos.

(d) Remuneration Committee

N/A. The Company does not have a formally instituted remuneration committee. All remuneration matters are passed upon by the Executive Committee and the Board.

3) *Changes in Committee Members*

In January 2013, Mr. Vicente Formoso retired from the Group, rendering his position in the Board and in the Executive and Audit Committees vacant.

4) *Work Done By Each Committee and Issues Addressed During the Year*

*Executive Committee*

The Executive Committee of the Company meets weekly and operates as a general management committee. Throughout the year, it has taken up all matters relating to corporate development, strategies and direction, business transactions, risk management, internal control, corporate governance, shareholder and stakeholder concerns. All decisions of the Executive Committee are brought up to the Board for approval, and to the stockholders during the annual general meeting for ratification.

The Executive Committee tackled and discussed all issues concerning the Company's business goals and operations.

*Audit Committee*

During the year, the Audit Committee reviewed (i) draft financial statements prior to recommending them to the Board for approval; (ii) reviewed, in conjunction with the external auditor, the development of accounting standards and assessed potential impacts on the financial statements; (iii) assessed the independence of the external auditor; (iv) discussed the proposed scope of work and approach of the audit with the external auditor; (v) recommended to the Board the appointment and remuneration of the external auditor; (vi) reviewed and approved the internal audit program, reviewed the internal audit reports and discussed issues with internal audit team and with the senior management; (vii) reviewed the independence of the internal audit function and the level of support and cooperation given by the management to the internal audit team, as well as resources of the internal audit team when undertaking its duties and responsibilities; (viii) reviewed the adequacy and effectiveness of the company's system of internal control.

During the financial year ended 31 December 2012, there were no significant control issues, weaknesses or significant areas of concern identified.

### ***Nomination Committee***

The Nomination Committee received and evaluated nominations for directors (regular and independent) to serve for the fiscal year 2012-2013. It will be doing the same for the fiscal year 2013-2014. There were no significant issues that were raised during the year.

#### **5) *Committee Program***

While there are no specific programs planned at this time that can be detailed for purposes of this reporting, each of the Committees is fully cognizant of their respective roles in ensuring that the Company is abreast and compliant with corporate governance mandates issued by the regulatory authorities, and will continually exert efforts to be effective in this role.

### **F. *RISK MANAGEMENT SYSTEM***

#### **1) *Overall Risk Management Philosophy of the Company***

The Company, through the Board, ensures the maintenance of an adequate system of internal controls and reviewing their effectiveness. The system of internal control is designed to facilitate effective and efficient operations, safeguard its assets, and ensure that the quality of internal and external reporting comply with applicable laws and regulations. In establishing internal controls, the Company has taken into consideration the nature and extent of the Company's business, operations and financial risks, the likelihood of crystallization of such risks, and the costs of implementing the relevant internal controls. These internal controls are designed to manage, but not eliminate the risk of failure to achieve business objectives and provide reasonable, but not absolute, assurance against the risks of materials misstatement, fraud, or losses. Each year, the board reviews the risks affecting the Company and evaluates the effectiveness of the internal control framework with respect to the management of such risks. The company's internal control framework covers: (i) the setting of objectives, budgets, and targets; (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; (iii) the delegation of authority; and (iv) the establishment of clear lines of accountability.

#### ***Annual Review by the Board of the Risk Management System***

At the end of this fiscal year, the Board review the existing internal controls and assessed their effectiveness against the various risks to which the Company was vulnerable during the covered period, and determined that the Company's internal controls are efficient and effective.

#### **2) *Risk Policy***

##### **(a) *Company***

As describe above, the Company's internal control framework covers: (i) the setting of objectives, budgets, and targets; (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; (iii) the delegation of authority; and (iv) the establishment of clear lines of accountability.



Strategies and objectives of the Company as a whole are determined by the Board. Budget are prepared annually and reviewed by the Board. In implementing these strategies and achieving these objectives, each Executive Director has specific responsibilities for monitoring the conduct and operations of individual business units within the Company. This includes the review and approval of business strategies and plans, the setting of business related performance targets as well as the design and implementation of internal controls.

Periodic financial information is provided to the Executive Directors. Variance analysis between actual performances and targets are prepared and documented for discussion at Board meetings, with explanations noted for any material variances and deviations between actual performances and budgets/targets. This helps the Board and the Company's Management to monitor the Group's business operations and to plan on a prudent and timely basis. Other regular and ad hoc reports are prepared for the Board and its various committees, to ensure that the Directors are provided with all the requested information in a timely and appropriate manner.

To allow for delegation of authority as well as to enhance segregation of duties and accountability, a clear organization structure exists detailing different levels of authority and control responsibilities within each business unit of the Company. Certain specific matters are reserved for the Board's decision and cannot be delegated. These include, among others, the approval of the annual and interim results, annual budgets, capital structure, declaration of dividends, material acquisitions, disposals and capital expenditures, Board structure and its composition and succession.

In addition, the Board also monitors its internal controls through a program of internal audits. The internal audit team reviews the major operations, financial and risk management controls of the company on a continuing basis, and aims to cover all its major operations on a rotational basis. The scope of review and the audit program of the internal audit team, formulated and based on a risk assessment approach, with focus on areas with relatively higher perceived risks, are approved by the Audit Committee at the end of the preceding financial year in conjunction with the Company's senior management. During its visits, the internal audit team also ensures that appropriate controls are in place and deficiencies or irregularities (if any) are rectified.

The internal audit function reports directly to the Audit Committee. Accordingly, regular internal audit reports are circulated to the Audit Committee members, the Chief Financial Officer, and the external auditors for review in accordance with the approved internal audit program.

(b) Group

The Group's risk management policy follows that of the Company.

(c) Minority Shareholders

In order to maintain a healthy relationship with its shareholders – both the majority and minority – the Company has established various channels of communication : (i) shareholders are encouraged to raise any comments or concerns on the performance and future directions of the Company with the Directors at the annual general meeting; (ii) the

Company distributes the annual results to the shareholders; (iii) the Company's website contain important corporate information; (iv) shareholders have direct access to the corporate secretary to raise their inquiries and concerns.

**3) Control System set-Up**

**(a) Company**

The Board has overall responsibility for ensuring that the Group maintains as adequate system of internal control and risk management and for reviewing its effectiveness. The Audit Committee undertakes the detailed monitoring of the controls and reports to the Board its findings. The Board reviews the system of internal and financial controls annually to ensure that controls are able to effectively result in the proper management of business risks. The Company has a management structure with clear lines of responsibility and accountability and staffed with appropriate personnel.

**(b) Group**

The control system for the Group follows that of the Company as described above.

**(c) Committee**

It is the Company's Audit Committee that undertakes the detailed monitoring of the different control mechanism. The Company's management structure is also such that risk management is embedded across the Company's organization.

**G. INTERNAL AUDIT AND CONTROL**

**1) Internal Control System**

Disclose the following information pertaining to the internal control system of the company:

**(a) Explain how the internal control system is defined for the company;**

The Board is responsible for maintaining and reviewing the effectiveness of the Company's system of internal controls. The internal controls are designed to meet the Group's particular needs, minimize the risks to which the Company is exposed, manage rather than eliminate the risks to achieve business objectives, and provide reasonable but not absolute assurance against misstatements or losses. The Company's internal control framework covers (i) the setting of objectives, budgets, and targets; (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; (iii) the delegation of authority; and (iv) the establishment of clear lines of accountability.

**(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;**

During the year ended 31 December 2012, the Board, through the Audit Committee, reviewed the risks and evaluated the internal control framework that operates within the Company and considered that the system of internal controls in operation is effective.



(c) Period covered by the review;

The review covered the period from 01 January 2012 to 31 December 2012

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Strategies and objectives of the Company as a whole are determined by the Board. Budgets are prepared annually and reviewed by the Board. Budgets are prepared annually and reviewed by the Board. In implementing these strategies and achieving these objectives, each Executive Director has specific responsibilities for monitoring the conduct and operations of individual business units within the Company. This includes the review and approval of business strategies and plans, the setting of business-related performance targets as well as the design and implementation of internal controls.

Periodic financial information is provided to the Executive Directors. Variance analysis between actual performances and targets are prepared and documented for discussion at Board meetings, with explanations noted for any material variances and deviations between actual performances and budget/targets. This helps the Board and the Company's Management to monitor the Group's business operations and to plan on a prudent and timely basis. Other regular and ad hoc reports are prepared for the Board and its various committees, to ensure that the Directors are provided with all the requested information in a timely and appropriate manner.

To allow for delegation of authority as well as to enhance segregation of duties and accountability, a clear organizational structure exists detailing different levels of authority and control responsibilities within each business unit of the company. Certain specific matters are reserved for the Board's decision and cannot be delegated. These include, among others, the approval of annual and interim results, annual budgets, capital structure, declaration of dividends, material acquisitions, disposal and capital expenditures, Board structure and its composition and succession.

In addition, the Board also monitors its internal controls through a program of internal audits. The internal audit team reviews the major operational, financial and risk management controls of the Company on a continuing basis, and aims to cover all its major operations on a rotational basis. The scope of review and the audit program of the internal audit team, formulated and based on a risk assessment approach, with focus on areas with relatively higher perceived risks, are approved by the Audit Committee at the end of the preceding financial year in conjunction with the Company's senior management. During its visits, the internal audit team also ensures that appropriate controls are in place and deficiencies or irregularities (if any) are rectified.

(e) Where no review was conducted during the year, an explanation why not.  
Not applicable.

## 2) Internal Audit

### (a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
The Audit Committee provides the general direction as to the role of Internal Audit. The Internal Audit's responsibilities are defined by the Audit Committee as part of their oversight role	The scope of work of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal controls.	In-house	Josephine M. Logroño	A written report is prepared and issued by the Chief Internal Auditor following the conclusion of each internal audit engagement and are distributed as appropriate. Internal audit results are also communicated to the Audit Committee.

- (b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee? Yes. The Audit Committee is responsible for the appointment of the Internal Auditor who shall report directly to the Audit Committee
- (c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The Chief Internal Auditor reports functionally to the Audit Committee and has full and free access to the Audit Committee. Internal Audit is granted authority for full and complete access to any of the company's records, physical properties, and personnel pertinent to carrying out any engagement.

- (d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Mae Christine Go	Resignation due to transfer to another Company

- (e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.



<b>Progress Against Plans</b>	The 2012 audit activity was completed in accordance to the annual internal audit plan
<b>Issues<sup>1</sup></b>	During the year 2012, there were no significant issues identified which might affect the shareholders' stake in the Company
<b>Findings<sup>2</sup></b>	During the year 2012, there were no significant findings identified which might affect the shareholders' stake in the Company
<b>Examination Trends</b>	<p>The audit planning is prepared annually based on a 3-year audit cycle review, risk assessment of the company's business processes, taking into account stakeholder expectations and current developments.</p> <p>During 2012 audit planning, no pervasive issues and findings from the previous year's audit prevailed that resulted to a cycle review in 2012. Also, a follow-up audit was conducted on completed audit, and based on this audit, no significant issues or findings were identified that warrants a cycle review in 2012.</p>

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

<b>Policies &amp; Procedures</b>	<b>Implementation</b>
Cash Advance Policy	Established controls were implemented

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

<sup>1</sup> "Issues" are compliance matters that arise from adopting different interpretations.

<sup>2</sup> "Findings" are those with concrete basis under the company's policies and rules.

<b>Auditors (Internal and External)</b>	<b>Financial Analysts</b>	<b>Investment Banks</b>	<b>Rating Agencies</b>
The Audit Committee evaluates and determines the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor. The Audit Committee review, at least annually, the qualifications, performance and independence of the external auditors.	The company does not engage in the services of Financial Analysts	The company does not engage in the services of Investment Banks	The company does not engage in the services of Rating Agencies
The Audit Committee is responsible for the appointment of the internal auditor who shall report directly to the Audit Committee. The Audit Committee also reviews and approves the internal audit plans, and reviews the internal audit reports			

- (h) The Company's Chairman and the members of the Executive Committee shall have to attest to the Company's full compliance with the SEC Code of Corporate Governance. Such confirmation shall state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

#### **H. ROLE OF STAKEHOLDERS**

- 1) The Company is cognizant of its responsibility of balancing the interest of all of its stakeholders – shareholder and non-shareholder (e.g., customers, investors, suppliers, etc.) alike. The Company shall endeavour to maintain positive relations with all of its stakeholders for the smooth conduct of its business.

##### **(i) Customer's Welfare**

The Company, through its various subsidiaries involved the selling of condominium units or leasing of retail space, strives to deliver products of the highest standard and which are in conformity with prevailing best practices.

##### **(ii) Supplier/contractor selection practice**

The Company and its subsidiaries observe a rigid procedure in the appointment of suppliers, contractors, and service providers. This policy seeks to ensure that any supplier/contractor/service provider engaged by the Company or the Group is financially



able, technically capable, and in compliance with existing rules and regulations affecting its particular industry. Thus, every potential supplier/contractor/service provider undergoes a stringent accreditation process. Only those successfully accredited may be allowed to bid for any of the Company's or Group's projects. The accreditation process includes an evaluation of the supplier's/contractor's/service provider's legal compliance with statutes and compliance with requirements of regulatory bodies, financial capacity, technical competence, track record in the industry, absence of any suit, claim, or proceeding against it.

With respect to legal compliance, those seeking accreditation are required to present, among others the following: business registration certificates (SEC registration, Certificate of Business Registration from the Department of Trade and Industry), incorporate documents, Tax Identification Number, BIR Certificate of Registration, Mayor's Permit, Distributorship or Franchise authority, SSS, Philhealth, Pag-ibig employer registrations, and such other requirements as may be specific to the applicant's industry.

With respect to the financial stability, the Company required the submission of the applicant's Audited Financial Statements and the Interim Financial Statements. The applicant's financial acceptability is evaluated by the Company based on such factors as liquidity ratio, profitability ratio, etc.).

With respect to technical capability, the requisitioning unit of the Company or the Group evaluates the acceptability and suitability of the products or services being offered by a supplier/contractor/service provider, and looks into the applicant's conformance to relevant regulatory standards, validity of industry relevant licenses, past performance and track record, table of organization and manpower complement, equipment list, product catalogs, reference reports, etc. The adequacy of the applicant's facilities, equipment and manpower are validated through site visits, third party validation and interviews with reference sites.

(iii) Environmentally friendly value chain

The Company is cognizant of its responsibility towards supporting environment friendly efforts and business and operations practices. Thus, for instance, in dealing with its suppliers or contractors, due care is observed so that only those with environment friendly practices are awarded works and contracts. Internally, the Company has instituted efforts to reduce wastage and establish guidelines for the efficient management of resources such as electricity, water, paper and other common resources being used by the Company. The same due care for environment friendly and green practices is observed within the Group. Thus, for instance, the Company's subsidiary, KSA Realty Corporation has been awarded by internationally prestigious bodies for its energy conservation programs for its condominium facility, The Enterprise Center which is located at the heart of Makati City (i.e., the Asean Energy Awards, Asean Energy Efficient Building). As with the Enterprise Center and the Group's other developments (The Shang Grand Tower, The St. Francis Shangri-La Place, One Shangri-La Place), Shangri-La Plaza, green practices are sought by the Company to the extent possible i.e., through the adoption of technology which optimize energy use with the least impact to the environment, the adoption of waste management programs, green procurement policy with respect to suppliers and contractors, etc., observance of all relevant regulations promulgated by regulatory authorities.

(iv) Community Interaction

The Company and the Group engages in programs in line with its desire to fulfil its social responsibility to the community at large. Thus, it regularly donates substantial amounts to victims of major calamities such as Typhoons Milenyo, Pablo and Sendong. Through its subsidiaries, the Company provides free venues for the hosting of socially relevant events such as those sponsored by the Philippine Red Cross, World Wildlife Fund, etc.

(v) Anti-corruption Programmes and Procedures

The company observes stringent anti-corruption programmes and procedures which includes an express policy on conflict of interest in the case of Company directors, and a code of ethic for the strict observance of the Company's employees with respect to conflict of interest issues, use of Company assets/resources/information, dealings with customers and suppliers, and non-acceptance of material gifts or gratuities from suppliers/contractors/any party transacting with the Company.

**Directors.** The Company's Manual of Corporate Governance requires a director to act in the best interest of the Company in a manner characterized by transparency, accountability, and fairness. He is also required to exercise leadership, prudence and integrity in directing the corporation towards sustained progress. Further, a director is admonished not to use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality.

**Conflict of Interest.** The Company's Code of Ethics set forth the following policies on the issue of conflict of interest:

- a) Employee shall have direct or indirect financial or business interest in the approval by the President or the Executive Committee in the absence of the President.
- b) No Employee shall accept a position as an officer, director, or consultant of an outside business concern (except professional or civic organizations or family businesses which have no relationship of any kind with the Company) unless with the written approval by the President or the Executive Committee in the absence of the President.
- c) No Employee, personally or through subordinates or others, shall influence any business transaction between the Company and any outside company in which that Employee has a financial interest or involvement, or in which the Employee may stand to have financial or personal gain, or when the outside company employs any of the Company Employee's relatives.
- d) No Employee shall accept any salary, discounts, fee, commission, or other forms of compensation, or any other things of value from any supplier, contractor, competitor, or other business partners as enumerated in Section D unless with written approval by the President or the Executive Committee in the absence of the President unless otherwise provided in this Policy.
- e) No Employee or his/her relatives shall make or guarantee a loan to, or accept a loan from suppliers, contractor, or competitor of the Company, or have borrowings



guaranteed by an individual or organization having business dealings with the Company.

- f) No Employee shall accept concurrent employment (regular, consultancy, or commission basis) without written approval by the President or the Executive Committee in business of any supplier, contractor, or competitor of the Company unless with the written the absence of the President from any other employer.

**Use of Company Assets, Resources, and/or Information.** The Company's Code of Ethics prohibits any employee from using any asset, resource, and/or confidential information of the Company for financial or personal gain of the employee or any other person, interest, or entity other than the Company.

**Dealings with Customers or Suppliers.** The Company's Code of Ethics lays down the following rules to be observed by employees in their dealings with the Company's various customers or suppliers:

- a) Employee shall offer or give payments or any gifts or entertainment, directly or indirectly, to or for the benefit of any Employee of the Company's customers, or to any organization in which an Employee of the Company's customer is known to have a material, direct or indirect, financial or business interest, if such payments or gifts are for purposes of influencing said Employee to commit or omit any act in violation of the lawful duty of said Employee.
- b) Amenities, entertainment, and other courtesies that are modest may be extended to employees of the Company's customers, but only to the extent appropriate and reasonable under applicable laws and customs and only for legitimate business purposes.
- c) Cash or non-cash payments and donations by the Company of things of value to Company customers, suppliers, contractors, or their employees shall be allowed if these:
  - i) modest and are designed to promote the sale of the Company's products or to enhance generally the business relationships between the Company and its customers, suppliers or contractors; and
  - ii) legal and acceptable by local community standards and customs.

**Gifts or Gratuities.** The Company's Code of Ethics prohibits employees from accepting any amount of money or cash gifts; any value of gift checks, prepaid cards, or any form of cash equivalents; personal gifts that are inappropriately lavish or excessive, or create a perception of undue influence or of significant amount (over Php2,000.00); business courtesies including discounts or benefits that are not made available to other employees; tickets, pocket money, and lodging for leisure and business travels; tickets to sporting, entertainment, or other non-fundraising events; and testimonial dinners and events, except personalized plaques or trophies.

The violation of an employee of any of the foregoing policies are met with disciplinary action.

(vi) Safeguarding Creditors' Rights

The Company ensures through best practices corporate governance measures that it has a well-performing management in place and that corporate assets are being put to appropriate and profitable use. Creditors' rights are also assured through the Company's observance of strict internal controls and a working risk management system, and through the clear and timely disclosure of the Company's operating and financial performance. Investor communications are kept open by way of direct access to the company's Management and through the Company's website. Creditors are also protected through timely and accurate disclosures made by the Company in such manner as may be required by regulatory institutions and by law.

2) Separate Corporate Social Responsibility Section

The Company does not have a section specifically named as a Corporate Responsibility Section. All of the Company's corporate social responsibility endeavors are overseen by its Marketing Department.

3) Performance-Enhancing Mechanisms For Employee Participation

***(a) Company's Policy With Respect To Its Employees' Safety, Health, and Welfare***

- The Company provides for the dental, medical & health plan coverage of its employees (in-patient and out-patient benefits) through an appointed service provider.
- The Company provides its employees with Group Life Insurance coverage.
- Regular health programs are also conducted for the employees like anti-flu shots, Pneumococcal & HPV vaccines, etc.
- The Company also schedules in coordination with the healthcare service provider the Annual Physical Examination to determine the employees' health conditions; following the results are treatments and/or corrective measures to address irregular conditions.
- The Company also undertakes sports and physical fitness programs for the employees every year like bowling, yoga classes, etc.
- In coordination with the Security and Safety Department and the local Government, Fire, Earthquake, and evacuation Drills are done annually to educate employees on the Company's emergency preparedness programs

***(b) Show Data Relating to Health, Safety and Welfare of its Employees***

The Company has issued several internal memoranda pertaining to employee welfare enhancing activities, i.e., Internal Office Correspondence dated 05 July 2012 regarding the holding of the Group's bowling tournament; Internal Office Correspondence dated 19 April 2012 regarding the schedule for the Fire Safety Drill; Internal Office Correspondence dated 31 May 2012 regarding the Earthquake Awareness Seminar and Evacuation Drill; Internal Office Correspondence dated 22 May 2012 reminding employees of the schedule for flu shots vaccination; Internal Office Correspondence dated 21 May 2012 regarding the Group's summer outing.

***(c) State the Company's Training and Development Programmes for Its Employees***

By the end of each year, management identifies and plans for training programs that employees from the different ranks are scheduled to attend the following year.



Identification is a result of superior's recommendations & requests, the performance evaluation ratings, and the needs analysis.

Last year, the following training programs were attended by the employees of the Company and the Group:

#### **Core Training Programs**

- **Basic QMS Internal Audit Course** May 9, 2012  
Total of 10 participants (10 SLPC)  
SLPC 10 (3 Managers, 7 Supervisors)
  - Total Cost: **within budget**
- **Advance QMS Internal Audit Course** May 15-16, 2012  
Total of 16 participants (1 SPI, 15 SLPC)  
SLPC 15 (9 Managers, 6 Supervisors), SPI 1 (1 Supervisor)
  - Total Cost: **within budget**

#### **External Training Programs**

##### **Functional & Technical Skills Program (*please refer to Annex "A1"*)**

- Total of 25 participants (6 Managers, 13 Supervisors, 6 Rank & File)  
Total cost of **Php215,137.24**
- Attendance: All registered/pre-registered employees attended the training/seminar: **100%**
- Rating: **"Satisfactory"** rating based on Training evaluation forms submitted by the participants

##### **Management Development Program (*please refer to Annex "A1"*)**

- Total of 3 participants (3 Managers),  
Total cost of **Php42,552.00**
- Attendance: All registered/pre-registered employees attended the training/seminar: **100%**
- Rating: **"Satisfactory"** rating based on Training evaluation forms submitted by the participants
- **Internal Auditor Training for ISO 14000 Environmental Management Systems**  
February 9-10, 2012, 2 participants (2 Managers)
  - Cost per Head: (2) **19,152.00** within budget, Attendance: 100%, Rating: Satisfactory
- **Applied MBA Program**  
January 28 – February 5, 2012, 1 participant (1 Manager)
  - Cost per Head: **23,400** within budget, Attendance: 100%, Rating: Satisfactory

##### ***Functional & Technical Skills Program***

- **Pneumatic Industrial Controls (PIC)**  
July 14 – August 18, 2012, 4 participants (4 Rank & File)
  - Cost per Head: (4) **26,800.00** within budget, Attendance: 100%, Rating: Satisfactory
- **Power System Design**  
July 14 – August 11, 2012, 1 participant (1 Manager)
  - Cost per Head: **8,500.00** within budget, Attendance: 100%, Rating: Satisfactory
- **Protective Relaying Course**  
September 1-29, 2012, 1 participant (1 Supervisor)
  - Cost per Head: **8,500.00** within budget, Attendance: 100%, Rating: Satisfactory

- **Basic Training Course for New Pollution Control Officers**  
June 26-29, 2012, 2 participants (1 Manager, 1 Supervisor)  
➤ Cost per Head: 17,000.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Basic HVAC Design**  
March 8-17, 2012, 3 participants (1 Manager, 2 Supervisors)  
➤ Cost per Head: 30,000.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Tomorrow's Supply Chain in a Value-Driven Global Economy**  
April 19-20, 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 12,500.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Fundamentals of Inventory Control**  
May 30, 2012, 1 participant (1 Rank & File)  
➤ Cost per Head: 5,000.00 within budget, Attendance: 100%, Rating: Satisfactory
- **CompTIA Network Plus**  
June 4-8, 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 26,250.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Managing the IBM Lotus Domino 8.5 Servers and Users**  
March 8-9, 2012, 1 participant (1 Manager)  
➤ Cost per Head: FREE within budget, Attendance: 100%, Rating: Satisfactory
- **HP Networking Switched Basic Training Course**  
May 4, 2012, 2 participants (1 Manager, 1 Supervisor)  
➤ Cost per Head: FREE within budget, Attendance: 100%, Rating: Satisfactory
- **Configuring & Troubleshooting Windows Server 2008 Active Directory Domain Services**  
February 20-24, 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 19,125.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Project Development & Project Management**  
February 23-24, 2012, 1 participant (1 Manager)  
➤ Cost per Head: 5,000.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Building Wiring Installation & Maintenance**  
February 13 – March 7, 2012, 1 participant (1 Rank & File)  
➤ Cost per Head: 6,900.00 within budget, Attendance: 100%, Rating: Satisfactory
- **6<sup>th</sup> Leading Without the Title for Executive Assistants and Administrators Seminar**  
July 18 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 5,574.24 within budget, Attendance: 100%, Rating: Satisfactory
- **Strategic Planning**  
September 25-26, 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 12,888.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Investigative Interview & Interrogation**  
November 8, 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 4,000.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Advanced Investigative Interview & Interrogation**  
December 3-5, 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 14,700.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Legal Consideration in Compensation**  
October 16-17, 2012 1 participant (1 Supervisor)  
➤ Cost per Head: 7,400.00 within budget, Attendance: 100%, Rating: Satisfactory
- **Hazard Identification, Risk Assessment & Control**  
December 3, 2012, 1 participant (1 Supervisor)  
➤ Cost per Head: 5,000.00 within budget, Attendance: 100%, Rating: Satisfactory
- **25<sup>th</sup> CIA Certification Seminar Series Parts 1 and 2**  
Organizer: Institute of Internal Auditors Philippines Inc.  
Venue: IIA-P Training Centre



Unit 702 Corporate Center, 139 Valero Street, Salcedo  
Village, Makati City

Date: Jan 14 - Mar 10, 2012

Total Cost: Php 20,000.00

No. of Participants: 1 (Maricel L. Delgado)

- **IT Audit Assurance: Course 101**

Organizer: Information Systems Audit and Control Association (Manila  
Chapter), Inc.

Venue: ISACA Manila Professional Development Center  
Suite 2109 Cityland 10 Tower 2  
#154 H. V. Dela Costa Street, Makati City

Date: Mar 28-30, 2012

Total Cost: Php 15,300.00

No. of Participants: 1 (Mae Christine L. Go)

- **BIR, HDMF, and Philhealth Continuing Compliance**

Organizer: P&A Grant Thornton Outsourcing, Inc.

Venue: Ballroom B, Dusit Thani Manila, Makati City

Date: Mar 28, 2012

Total Cost: Php 8,800.00

No. of Participants: 1 (Jamie Anne Marie C. Vinuya)

- **Diploma Course in Human Capital Management**

Organizer: De La Salle - College of Saint Benilde (DLSU-CSB) School of  
Professional and Continuing Education (SPaCE)

Venue: School of Design and Arts or Angelo King International  
Center

Date: Module 1: Strategic HR Planning (Mar 24 - Apr 28, 2012)

Module 2: Industrial Relations (May 5 - Jun 2, 2012)

Module 3: Development of Training Programs (Jun 16 - Jul  
14, 2012)

Module 4: Compensation and Rewards Management (Jul 28  
- Aug 25, 2012)

Total Cost: Php 52,125.00

No. of Participants: 1 (Bethany Janise T. Ong)

- **Taxpayer's Guide to Tax-Exempt Transactions and Preferential Tax Treatments**

Organizer: Center for Global Best Practices

Venue: EDSA Shangri-La Hotel, Mandaluyong City

Date: Jun 21-22, 2012

Cost Per Head: Php 10,370.00

Total Cost: Php 31,110.00

No. of Participants: 3 (Elsie C. Cagalingan, Mabel P. Tacorda, and Katherine M.  
Silva)

**(d) State the Company's reward/compensation policy that accounts for the performance of the Company beyond short term financial measures**

The Company recognizes its employees' performance through:

- Annual Merit Increase
- Performance Bonus
- Promotions & Upgrades
- Service Awards

**4) *Company's Procedure for Handling Complaints by Employees Concerning Illegal (Including Corruption) and Unethical Behaviour, and How Employees Are Protected From Retaliation***

The Company has its Code of Ethics or conduct which directs employees to proper behaviour in the workplace. It also serves as a guide for the handling of corrective actions against erring employees within the boundaries of due process as required by law.

The Company through the CORRECTIVE ACTIONS, DUE PROCESS, & GRIEVANCE MACHINERY Policy makes sure that an employee is given his right whether as a complainant or respondent to any grievance filed. This mechanism has been reduced in writing and forms part of the Company's policies and procedures. Following is the detailed description of said mechanism that is being observed by the Company:

**1. POLICY STATEMENT**

To implement a system that will ensure the observance of due process when handling out corrective actions to employees and to provide a mechanism for handling employee grievances.

**2. GENERAL PROVISIONS**

- 2.1 The Company believes that every employee, owing to his inherent goodness, is capable of conducting himself uprightly. Thus, self-discipline is considered an integral part of an employee's normal functions in the organization. To complement self-discipline, the Company has developed a Code of Conduct that will clarify acceptable standards of behavior and deviations therefrom.
- 2.2 The responsibility to assist an employee to act in conformance with the acceptable standards of behavior rest on the employee's immediate superior. Accordingly, the responsibility to take corrective actions in cases of deviations therefrom also lies with him. His decision relative thereto shall be given great weight.
- 2.3 In taking corrective action, the employee's immediate superior shall at all times observe due process and be guided by the principle of consistency and fairness. He should moreover decide upon his independent consideration of relevant matters, free from bias, prejudice or influence.
- 2.4 In implementing corrective actions, the immediate superior should make clear to the employee that the intention is not to punish but rather to give the employee the opportunity to learn from his mistakes. In counseling, for example, the superior reminds and advises the employee of the acceptable standards of behavior and assists the employee in correcting himself. Disciplinary leaves, on the other hand, are meant to relieve the employee from work for a certain number of days, without



pay, to allow him to contemplate, plan and adopt a resolution to correct himself. As for dismissals, they are meant to impress on the employee that his act of commission or omission is absolutely inconsistent with the Company's acceptable standards of behavior and whatever damage he has done (tangible or intangible) can no longer be rectified. To correct this, he should learn to abide with the acceptable standards of behavior of his next employer.

- 2.5 HR's primary role is to encourage the development of an atmosphere where positive discipline will be second nature to all employees. However, if there is a necessity for a corrective action, HR shall provide management with administrative support to carry it out. HR shall likewise give both management and employees such advice or counsel as may be needed to ensure that consistency and fairness is duly observed.

### 3. PROCEDURE

#### 3.1 Corrective Actions:

- 3.1.1 Upon observing or receiving a report about an employee's irregular act of commission or omission, the immediate superior shall initiate the disciplinary process by filling out the "Notice of Irregularity" form. The form shall be filled up as follows:

- 3.1.1.1 Statement of Facts. The superior describes the incident, the time, and place it happened, the person or persons involved, and other facts relevant to the case.

- 3.1.1.2 Company Rule Violated. The superior cites the particular provision in the Code of Conduct, policies and guidelines, orders or instructions, etc., that the employee violated with the irregularity. The superior shall likewise indicate the succession of the offense committed (1<sup>st</sup>, 2<sup>nd</sup>, etc.) and the corrective action that will be imposed.

- 3.1.2 After filling up 3.1.1.1 and 3.1.1.2, the superior signs the form and serves this to the employee. The employee receives the form, indicating the date and time received. After the employee has received the form, the superior indicates the number of working days within which the employee must submit his explanation and the date when the explanation is due. For infractions where the corrective action will be counseling or disciplinary leave, one (1) working day may be enough. Where the infraction may lead to dismissal, the employee should be given at least two (2) days to explain. The superior must make clear to the employee the consequences should the employee fail to submit his explanation within the time indicated. The immediate superior then photocopies the form, gives the original to the employee, and keeps the photocopy for his file.

- 3.1.3 If the employee fails to submit his explanation within the requisite period, he shall be deemed to have waived this right and the immediate

superior shall proceed to impose the appropriate corrective action using the photocopy of the form.

- 3.1.4 If the employee submits his explanation on time the immediate superior may have three courses of action, as follows:

3.1.4.1 If the immediate superior finds the explanation acceptable, he informs the employee about it, indicates this in the form, and returns the form to HR for inclusion in the employee's 201 File.

3.1.4.2 If the immediate superior finds the employee's reason insufficient to justify the irregularity, or if the employee has lied in his explanation and the immediate superior that sufficient reliable information or evidence to support him, he may immediately decide not to accept the explanation without going through an investigation.

3.1.4.3 If he has some doubts on the explanation or wants some matters verified, he may call for a formal investigation. IN this instance, he may request for assistance from HR on how to properly conduct the investigation. Based on the results of the investigation, he may decide whether the employee is guilty of the irregularity or not.

- 3.1.5 Once the immediate superior has established the guilt of the employee, he may decide on the corrective action to be imposed on the employee. Normally, the corrective action shall be as indicated in the provisions of the Code of Conduct. However, if the situation has some mitigating or aggravating circumstances, he may decide on a lighter or heavier penalty than indicated in the Code of Conduct. In this case, he should consult with HR.

- 3.1.6 The approval of the corrective action will depend on its severity. The immediate superior can approve corrective actions that only call for counseling. For those that will involve Disciplinary Leave, the Department Head and unit executive must also approve the action. IN cases where Dismissal is involved, the President must approve the action.

- 3.1.7 The HR Head shall be consulted for advice before the corrective action is carried out to ensure that it is fair and consistent with previous corrective action cases in the company. Where legal technicalities may be involved, the HR Head shall also seek the advice of the Legal Department

- 3.2 Grievance Machinery:

The Company shall ensure that all its employees adhere to the ethical work standards and norms. Any deviations, infractions, and violations shall be dealt with in accordance with the due process of law and shall implement the corresponding disciplinary actions following the fundamental principle of progressive discipline.



2. **DEFINITION OF TERMS:**

- 2.1 **Ethical work standards and norms** – the moral values, proper behaviors, and right conduct in the workplace.
- 2.2 **Deviation, infraction, and violation** - the act of breaking or defying the ethical work standards and norms.
- 2.3 **Due process** – the opportunity to be heard and to explain his side fully that is given to a concerned party undergoing administrative inquiry or investigation.
- 2.4 **Notice of irregularity** – the document issued to an employee as an opportunity to explain in writing or reply within forty-eight (48) hours upon receipt thereof to an alleged violation of Company rules and regulations.
- 2.5 **Administrative investigation** – the conduct of a question-and-answer procedure accorded to an employee under investigation for alleged violations of Company rules and regulations.
- 2.6 **Disciplinary action** – the disciplinary measure, contained in the Company's Code of Conduct, imposed corresponding to the nature and gravity of the deviation, infraction, and violation.
- 2.7 **Progressive discipline** – the graduated imposition of the corresponding disciplinary action for violations of Company rules and regulations.

3. **GUIDELINES AND PROCEDURES:**

- 3.1 Managers and supervisors are responsible for instilling and enforcing discipline in the organization to include the conduct of appropriate inquiry or investigation for violations of Company policies, norms, rules, and regulations.
- 3.2 The due process, as provided by law, shall be adhered to at all times whenever inquiry or investigation of alleged violations of Company rules and regulations is conducted. Disciplinary action can only be imposed upon completion of the investigation.
- 3.3 A Notice of Irregularity shall be issued to the employee for alleged violation of Company rules and regulations.
- 3.4 Administrative investigation can be pursued to provide concerned parties a venue to further present their explanations, testimonies, proofs, and/or evidence.
- 3.5 The imposition of disciplinary action shall be reviewed as follows:
  - 3.5.1 Verbal warning and written warning shall be reviewed and duly approved by the next-level superior and the HR & AS Division.

- 3.5.2 Suspension and termination, recommended by the next-level superior and the HR & AS Division shall be reviewed and duly approved by the Division Head, HR & AS Head, and the President.

#### **4. PROCEDURE ON DUE PROCESS**

##### **4.1 Opportunity to Explain**

- 4.1.1 The immediate superior and/or next-level superior prepares an Incident Report (IR) by accomplishing a Notice of Irregularity Form (IRF) within two (2) working days from the date the violation was committed or discovered. The IR shall state the following:
- Details of the incident;
  - Specific provision of the Code of Conduct that has been violated;
  - Request for a written explanation from the employee; and
  - Date when the written explanation is due and to whom it should be submitted.
- 4.1.2 The immediate superior and/or next level superior conducts initial investigation of the incident by:
- 4.1.2.1 Verifying and validating the written explanation submitted by the employee;
  - 4.1.2.2 Preparing a report on the results of the investigation to be submitted to the HR & AS Division; and
  - 4.1.2.3 Recommending a disciplinary action to be applied in the Investigation Report.
- 4.1.3 In cases of pending investigation, an employee may be placed under preventive suspension of not more than thirty (30) calendar days if his continued employment poses a serious and imminent threat to the life or property of the Company or co-employee.
- 4.1.4 If reported incident does not contain enough grounds, drop the case and file the documents in the 201 file of the employee.

##### **4.2 Administrative Investigation**

- 4.2.1 The immediate superior and/or next level superior notifies the concerned party/ies of the hearing, which is especially mandatory in termination cases.
- 4.2.2 The Notice of Hearing must be received by the concerned party at least 48 hours prior to the scheduled hearing.
- 4.2.3 Postponement of hearings shall be at the discretion of the HR & AS Head, provided a written request is submitted at least 24 hours before the scheduled hearing.
- 4.2.4 The Hearing Officer should be the next level superior of the concerned party, and an HR & AS representative stands as witness.



However, no immediate superior may act as investigator if he is a witness to the violation or is involved in the case, to ensure impartiality. In such cases, the supervisor/manager next higher in rank shall act as investigator.

- 4.2.5 The concerned party may be accompanied by any person of his choice to serve as his witness.
- 4.2.6 All minutes of the hearing shall be documented and duly signed by the attending parties.
- 4.2.7 After completion of the administration hearing, the hearing officer prepares an evaluation and recommendation of the appropriate disciplinary action and submits the same to the approving authorities specified in provision 3.5.
- 4.2.8 Disciplinary action/decision shall be implemented only after obtaining Management approval.
- 4.2.9 The decision on the corresponding disciplinary action shall be served by the immediate superior and/or next level superior and received in writing by the concerned party, with copies given to the division/department of the concerned party and to the HR & AS Division for the employee's 201 File.

#### **4.3 Appeal of Decision**

- 4.3.1 Appeal of disciplinary actions shall be submitted in writing to the HR & AS Head within five (5) days from receipt of notice of decision.
- 4.3.2 The HR & AS Head shall evaluate the case in consultation with the President and decide on the appeal within ten (10) days from receipt of said appeal.
- 4.3.3 The decision on the appeal issued by the HR & AS Head shall be final.

### **5. FACTORS TO GUIDE THE EVALUATION AND DECISION**

- 5.1 Aggravating circumstances are those that tend to increase the seriousness/gravity of the violation that warrants severe disciplinary action. Examples of aggravating circumstances are when the employee concerned:
  - 5.1.1 Has a previous record of similar violations within the past five (5) years;
  - 5.1.2 Has been guilty of multiple or habitual misconduct; or, the offender is a recidivist who, at the time an existing violation, has been previously served a disciplinary action for another violation under the same category of the Code of Conduct;
  - 5.1.3 Has caused the Company a great amount of damage, loss, or harm;

- 5.1.4 Was motivated by a reward or a promise of a reward in the commission of the violation;
- 5.1.5 Has benefited from the violation;
- 5.1.6 Occupies a position of trust and confidence such as those entrusted with safeguarding company funds and properties;
- 5.1.7 Has a poor performance record;
- 5.1.8 Was under the influence of prohibited drugs or alcohol when he committed the violation;
- 5.1.9 Took advantage of emergency situations;
- 5.1.10 Pre-meditated the commission of the violation;
- 5.1.11 Imposed his position upon a subordinate to commit the violation;
- 5.1.12 Committed an act in contempt of or with insult to the authorities; and
- 5.1.13 Employed craft, fraud, or disguise in committing the violation.

5.2 Mitigating circumstances are those that tend to lessen the seriousness/ gravity of the violation and warrant less severe disciplinary action. Examples of mitigating circumstances are when the employee concerned:

- 5.2.1 Has been in the service of the Company for a relatively long period of time, provided that he has not committed a similar violation in the last five (5) years prior to the filing of the administrative case against him;
- 5.2.2 Has an above average performance record for a continuous period of at least 5 years immediately prior to the filing of the administrative case against him;
- 5.2.3 Has not caused substantial damage or loss to the Company and the violation committed has no actual pecuniary damage to the Company;
- 5.2.4 Does not benefit from the violation;
- 5.2.5 Voluntarily admits the violation prior to the presentation of evidence for the investigation;
- 5.2.6 Does not have the intent to defraud;
- 5.2.7 Errs in his judgment;
- 5.2.8 Follows a wrong order of a superior in good faith or under threats, intimidation, or duress is provoked to commit the violation;
- 5.2.9 Has no intention to commit the violation;
- 5.2.10 Suffers from an illness that adversely affects his judgment.



## 6. IMPLEMENTING DISCIPLINARY ACTION

- 6.1 The signatory of the memorandum for the disciplinary action shall be as follows:  
Verbal and written warnings – Immediate superior  
Suspension – Division/Department Head  
Termination – Division Head and President
- 6.2 The prescriptive period of any violation shall be six (6) months from the date of its commission.  
In case an employee commits the same violation in less than six (6) months, the new violation shall be considered a continuation of the previous violation.  
In case the second violation is committed after the prescriptive period of six (6) months has expired, the new violation shall be treated as a first violation.
- 6.3 The immediate superior serves the disciplinary memorandum in all cases. To ensure that the objective of the disciplinary action is realized, the immediate superior shall see to it that the same is implemented immediately after a decision has been reached.
- 6.4 The above notwithstanding, top management shall have the discretion to impose a higher or lower penalty upon a particular violation if in its appreciation of relevant facts, the same is warranted. Any damage, loss, or injury to person/s or property by reason of these violations shall be charged to the erring employee.

## I. DISCLOSURE AND TRANSPARENCY

### 1) Ownership Structure

(a) *Shareholders holding 5% or more of the Company's Equity as of 30 April 2014 reporting:*

Shareholder	Number of Shares	Percent	Beneficial Owner
PCD Nominee Corporation (Filipino)	1,918,113,695	40.26%	R
Travel Aim Investment B.V.	1,648,869,372	34.61%	B/R
Ideal Sites & Properties, Inc.	1,465,615,626	30.76%	R
National Bookstore, Inc.	481,558,562	10.11%	B/R

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Wilfred Woo	1	none	0.000%
Kin Sun Andrew Ng	930,010	none	0.000%
Federico g. Noel, Jr.	1	none	0.000%
Danila Regina I. Fojas	10	none	0.000%
<b>TOTAL</b>			<b>0.000%</b>

- 2) The Company's Annual Report submitted to the SEC and the PSE, and distributed to its stockholders and made available publicly in print and on the Company's website, discloses all the matters indicated in this item – key risks, corporate objectives, financial performance indicators, non-financial performance indicators, dividend policy, biographical details of directors, training and/or continuing education program of directors, number of Board meetings held during the year, attendance of directors, remuneration of directors and principal officers.

The Company however, does not have a separate full-blown policy on whistle blowing. However, the Company in practice, observes the policy of treating all employee disclosures as confidential, and any disclosing employee is assured of fair treatment and protection against retaliation.

3) *External Auditor's fee*

Name of auditor	Audit Fee	Non-audit Fee
SGV & CO.	P 1,936,400.00	P 1,058,535

4) *Medium of Communication*

In order to maintain its relationship with its stakeholders, the Company has established various channels of communication:

- i) Shareholders can raise any comments of the performance and future directions of the Company with the Directors at the annual general meeting.
- ii) The Company distributes the annual results to shareholders.
- iii) The Company's website [www.shangproperties.com](http://www.shangproperties.com) contains significant corporate information i.e., biographical details of directors and management, organizational structure, annual and interim reports, SEC and PSE disclosures, major historical developments, announcements, etc.
- iv) Shareholders are welcome to raise inquiries through the Legal Department of the Company.

5) *Date of Release of Financial Report*

The Company's Audited Financial Statements was approved by the Company's Board during its meeting held on 27 February 2013.

6) *Company Website*

The Company's website [www.shangproperties.com](http://www.shangproperties.com) duly discloses up-to-date information regarding the Company's business operations, financial statements, shareholding structure (as contained in the various disclosure forms of the SEC and the PSE).



## 7) *Related Party Transactions*

Following are the related party transactions entered into by the Company and duly disclosed in the SEC required form 17-A:

- a) On 09 November 2009, the Issuer entered into a Memorandum of Agreement with its subsidiary Shang Properties Realty Corporation ("SPRC") (formerly, The Shang Grand Tower Corporation), wherein Issuer agreed with SPRC to develop a portion of Issuer's Property located at Edsa cor. Shaw Blvd., Mandaluyong City, into another commercial / retail building ("Project") comprised of a shopping mall, parking facilities, and high-rise residential condominium building to be known as "One Shangri-La Place". Under the MOA, Issuer commits to transfer a portion of its Property where the Project will be constructed, and to contribute up to PHP TWO BILLION FIVE HUNDRED MILLION and 00/100 (PHP2,500,000,000.00) to partially fund the construction of the Project. SPRC, for its part, will put up the rest of the funding required for the construction of the Project. Issuer and SPRC also agreed to allocate the Project as follows: (i) the mall area, together with its facilities and amenities, shall be allocated exclusively to Issuer; (ii) the residential portion of the Project will be allocated exclusively to SPRC; (iii) all the parking slots that will be built beneath the mall area (basement parking) and 8% of the podium parking slots, shall be allocated to the Issuer; (iv) 92% of the podium parking slots will be allocated to SPRC.
- b) A portion of the Company's land where the Shangri-La Plaza Mall is located is being leased to SLPC. The lease is for a period of twenty five (25) years from 6 January 1993. Rental income is calculated at 10% of SLPC's annual rental income from mall operations plus a certain percentage of the carpark's net income.
- c) Pursuant to the MOA between the Company and its subsidiary Shang Property Realty Corporation (described in the disclosure in Item (a) above), of the mixed development project to be known as the One Shangri-La Place, the Company shall be allocated the mall area together with its facilities and amenities of said development. The Company and SLPC have in turn entered into an agreement whereby SLPC shall lease said mall facility from Issuer of a period of five (5) years commencing on September 2012, renewable upon mutual agreement of the Parties. Rental income is calculated at 12% of SLPC's annual rental income from mall operations
- d) On 16 January 2002, the Company entered into an agreement with SLPC and SPSI. Under the terms and conditions of the agreement, SPSI will be granted limited usufructuary rights over the Issuer's parking spaces for a consideration equivalent to a certain percentage of SPSI's gross income less direct and indirect expenses. The agreement is effective until 31 December 2002 and shall be renewed automatically for another year unless a notice of non-renewal is served by the Issuer or SPSI.
- e) On May 8, 2005, the Company entered into a Memorandum of Agreement ("MOA") with Shang Properties Realty Corporation ("SPRC") whereby the Company, as registered owner of a parcel of land located along St. Francis Road cor. Internal Road, Shangri-La Complex, Mandaluyong City ("Property"), agreed with SPRC for the latter to develop the Property into a two-tower high rise residential condominium to be known as The St. Francis – a Shangri-La Place ("Project"). SPRC shall provide the funding for the Project which was completed in 2009.



The MOA, among others, provides that the Company, as the owner of the Property, commits to transfer the same, free from all liens and encumbrances, in favor of the Condominium Corporation that will be incorporated upon the completion of the Project. Pending the transfer of the Property to the Condominium Corporation, Issuer shall allow the use of the Property for the construction of the Project, subject to the terms and conditions hereinafter stipulated. SPRC shall provide funding for the construction of the Project. It is the intention of the Parties to allocate the resulting units in the Project between them, with each party taking ownership and possession of its respective allocated units ("Allocated Units"), with full power and discretion on the disposition of the same, subject only the pertinent conditions hereunder contained. The allocation between the Parties of the Net Saleable Area shall be at the ratio of twenty percent (20%) to the Company and eighty percent (80%) to SPRC subject to adjustment based on mutual agreement of the Parties. The actual designation of the Parties' respective Allocated Units shall be determined upon completion of the final plans and shall be incorporated in a supplemental agreement to be executed by the Parties. The Parties also agreed that Seventy Five (75) contiguous parking slots shall be allocated to the Issuer. The allocation of the remaining parking slots net of the 75 slots allocated to the Company, shall be eighty percent (80%) to SPRC and twenty percent (20%) to Issuer subject to adjustment based on mutual agreement of the Parties. The actual designation of the parking slots shall be determined upon completion of the final plans and shall be incorporated in a supplemental agreement to be executed by the Parties.

- f) The Company leased a portion of its land to an affiliate, Edsa Shangri-La Hotel and Resort, Inc., where the latter's Edsa Shangri-La Hotel is located. The lease is for a period of twenty five (25) years commencing on 28 August 1992, renewable for another twenty five years at the option of the lessee. Rental income is computed on a fixed percentage of the Hotel's room, food and beverage, dry goods and other service payments.
- g) On 1 January 2001, the Company entered into a cost sharing agreement with SLPC and other related companies for the services rendered by the officers of the Company to its related companies. Other transactions with related companies substantially consist of reimbursement of expenses paid for by the Company in behalf of its affiliates and vice-versa.
- h) Shang Property Management Corporation entered into a Memorandum of Agreement with KSA Realty Corporation, pursuant to which the former shall assist the latter in managing and administering the leasing operations of The Enterprise Center.
- i) Shang Property Management Corporation entered into a Memorandum of Agreement with The Enterprise Center Condominium Corporation pursuant to which the former shall assist the latter in managing and administering the condominium development known as The Enterprise Center, specifically with respect to the common areas thereof.

The Company is cognizant of the good governance and best practices pitfalls of related party transactions. It is for this reason that such transactions are entered into with due care and thorough deliberation, and within the limitations provided by relevant laws and regulations. The Company also ensures that such transactions are fair to the Company and are at arm's length. Such transactions are fully disclosed to the Board and subjected to vigorous scrutiny by the directors, and must be approved by a majority vote of the Board of Directors.



With respect to the directors, the Company's policy as set out in its Manual of Corporate Governance is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position. A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the corporation, or stands to acquire or gain financial advantage at the expense of the corporation.

With respect to Officers/Directors (including spouses/children/siblings/parents)

The Company, as a general rule, discourages transactions with Officers and Directors and their spouses/children/siblings/ parents. Where such a transaction arises, the Company takes deliberate care in ensuring that the same fosters no conflict of interest, and is not prejudicial to the Company. Material transactions of such nature are duly disclosed to the Board for the latter's scrutiny and approval. Disclosure obligations required by law and relevant regulation are also duly complied with by the Company.

With respect to interlocking directors

Transactions with entities with interlocking directors with the Company are treated in the same manner as the Company views related party transactions. Requirements set forth by law and regulation in cases involving interlocking directors are also duly observed.

#### **J. RIGHTS OF STOCKHOLDERS**

##### **1) Right to Participate Effectively in Annual/Special Stockholders' Meetings**

###### **(a) Quorum**

The Company's By-Laws provides thus: "Unless Philippine law shall require a higher majority vote, the affirmative vote of shareholders of the Corporation owning or representing at least a majority of the entire subscribed capital stock entitled to vote shall be necessary to constitute a quorum and the majority vote of those present in a meeting constituting a quorum shall be necessary for any corporate act by the shareholders of the Corporation."

###### **(b) System Used to Approve Corporate Acts**

The Company's By-Laws provides for the manner of voting in the annual/special stockholders meetings, thus: "At all meetings of stockholders, a stockholder may vote in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary not later than ten (10) days before the time set for the meeting. Such proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary at least 3 days prior to a scheduled meeting or by their personal presence at the meeting. The decision of the Secretary on the validity of proxies shall be final and binding until set aside by a court of competent jurisdiction.

**(c) Stockholders Rights / Dividends**

There are no stockholders' rights provided in the By-Laws of the Company which differs from the rights vested by the Corporation Code.

The following cash dividends were declared by the Company in 2012 and 2013. Apart from the restrictions imposed by statutes and regulations, there are none internal to Company which hamper or may hamper any declaration of dividends by the Issuer, and for as long as said declarations can be supported by the Company's financial position. The Company has not declared any stock dividends.

The following cash dividends were declared by the Company in 2012 and 2013:

**2013**

- (a) During the regular meeting of the Issuer's Board held on 27 February 2013, the Board approved the declaration of P.060 per share cash dividend to all shareholders of record as of 15 March 2013, to be taken from the unrestricted retained earnings as reflected in the audited financial statements of the Issuer as of 31 December 2012, to be paid on or before 25 March 2013.

**2012**

- (a) During the regular meeting of the Issuer's Board held on 17 February 2012, the Board approved the declaration of P0.042 per share cash dividend to all shareholders of record as of 05 March 2012, to be taken from the unrestricted retained earnings as reflected in the audited financial statements of the Issuer as of 31 December 2011, to be paid on or before 16 March 2012.
- (b) During the regular meeting of the Issuer's Board held on 30 August 2012, the Board approved the declaration of P0.040 per share cash dividend to all shareholders of record as of 17 September 2012, to be taken from the unrestricted retained earnings as reflected in the audited financial statements of the Issuer as of 30 June 2012, to be paid on or before 30 September 2012.

**(d) Stockholder's Participation**

The Board and the Company recognize that a key part of governance is its open and effective engagement with its shareholders and stakeholders, so that measures are in place to assure open channels of communications. Thus, shareholders can raise comments on the performance and future directions of the Company during the annual stockholders meetings; annual results are distributed to the stockholders and disclosed to the public; the Company's website features various information about the Company and its operations, directions, disclosures, and financial strength, as well as encourages feedback from shareholders and the public alike.

The Board and the Company ensure that the rights of stockholders as provided by law and regulation are respected. This respect for the Company's shareholders is further enshrined in Article 6 (A) and (B) of the Company's Manual of Corporate Governance, to wit:

- "A) The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:
- (i) Right to vote on all matters that require their consent or approval;



- (ii) Pre-emptive right to all stock issuances of the corporation;
- (iii) Right to inspect corporate books and records;
- (iv) Right to information;
- (v) Right to dividends; and
- (vi) Appraisal right.

- B) The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the bylaws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation."

8. The Company policy of asking shareholders to actively participate in corporate decisions regarding amendments to the Company's constitution (Articles of Incorporation and By-Laws), issuance of additional shares, and transfer of all or substantially all assets, which in effect results in the sale of the company, are governed by the provisions of the Corporation Code of the Philippines and by implementing rules, regulations, circulars, promulgated by regulatory authorities. The Company has not adopted not will it adopt any contrary policy.

9. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

Date of sending out notices: 04 June 2012

Date of the last Annual/Special Stockholders' Meeting: 19 June 2012

The Company's By-Law provisions provides that notices for regular and special meetings of the stockholders shall be sent at least 15 days prior to the date of the meeting.

10. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

There were no significant questions asked during the AGM.

## 11. Result of Annual/Special Stockholders' Meeting's Resolutions

All resolutions put forth were unanimously approved by 87.01% of the votes present during the meeting. These resolutions included the approval of the minutes of the previous annual general meeting, approval of the management's report of operations for the previous year, appointment of the firm of Sycip Gorres Velayo & Co. as the Registrant's External Auditors, approval and ratification of the Company's Audited Financial Statements as of 31 December 2011.

The results of the votes taken on all the resolution during the last AGM of the Company is immediately made known to the shareholders present, and within five (5) days from the date of the AGM, the approval of all resolutions during the AGM is duly disclosed to the SEC and the PSE through the 17-C unstructured reports.

### *(e) Modifications*

The Company has not made modifications to the Annual/Special Stockholders' Meeting regulations during the most recent year.

### *(f) Stockholders' Attendance*

- i. The company did not hold any Special Stockholders' meeting during the last fiscal year. Details of Attendance in the most recent Annual Stockholders' Meeting held last 19 June 2012 are as follows:

#### *Names of Board Members/Officers Present:*

Alfredo C. Ramos  
Alexandra Ramos-Padilla  
Cynthia R. Del Castillo  
Johnny O. Cobankiat  
Benjamin I. Ramos  
Wilfred Woo  
Danila Regina I. Fojas  
Kin Sun Andrew Ng  
Vicente P. Formoso  
Federico G. Noel, Jr.

*Date of Meeting:* 19 June 2012

#### *Voting Procedure:*

The voting on each matter put forth for shareholders approval during the AGM was carried out by the show of hands, where the approvals were unanimous.

However, in the event that there is an objection by any stockholder to any of the resolutions put forth for approval, the Company shall adopt the following procedure:

A voting by ballot will take place, and the Shareholders present will be requested to appoint the Corporate Secretary of the Company and the representative of the Company's External Auditor to supervise the voting, receive and tabulate the votes,



determine and certify the results of the voting, and do everything else necessary to ensure a fair and honest voting process.

Total Percentage of Stockholders in Attendance during the last AGM: 87.01%

- ii. As described above, where the vote of the stockholders on any matter submitted to a vote during the AGM is not unanimous and there is an objection, voting by ballots is carried out, and the Stockholders shall appoint the representative of the Company's External Auditor to supervise the elections, and to certify the results, together with the Company's Corporate Secretary.
- iii. The Company only has common shares. All shares have identical voting rights. Every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock as of record date. Every stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate his votes and give one candidate/nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal or he may distribute them on the same principle among as many candidates as he shall see fit provided that the total number of votes cast by him shall not exceed the number of shares owned multiplied by the whole number of directors to be elected.

Every stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate his votes and give one candidate/nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal or he may distribute them on the same principle among as many candidates as he shall see fit provided that the total number of votes cast by him shall not exceed the number of shares owned multiplied by the whole number of directors to be elected.

There are no stated conditions precedent to the exercise of cumulative voting rights.

***(g) Proxy Voting Policies of the Company***

Pursuant to Article II, Section 7 of the Company's By-laws, at all meetings of stockholders, a stockholder may vote in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary not later than 10 days before the time set for the meeting. Such proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary at least 3 days prior to a scheduled meeting or by their personal appearance at the meeting. The decision of the Secretary on the validity of the proxies shall be final and binding until set aside by a court of competent jurisdiction.

***(h) Sending of Notices***

Pursuant to Article II, Section 4 of the Company's By-laws, notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery or by mailing the notice at least 15 business days prior to the date of the meeting to each stockholder of record at his last known post office address or by publishing the notice in a



news paper of national circulation. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called. In case of special meetings, only matters stated in the notice can be the subject of motions or deliberations at such meeting. A shareholder may waive the requirements of this paragraph, but only when such waiver is expressed in writing.

When the meeting of stockholders is adjourned to another time or place it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

**(i) Definitive Information Statements and Management Report**

<b>Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials</b>	Both hard copies and CD copies of the Definitive Information Statement is distributed /sent by courier to all shareholders of the Company (for the 2012 AGM, there were 5,849 stockholders of record).
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners</b>	Distribution was made not later than 28 May 2012 for the last AGM. (Date of AGM was 19 June 2012. Thus, distribution was made at least 15 business days before the date of the AGM as required by the Sec regulations)
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders</b>	Distribution was made not later than 28 May 2012 for the last AGM. (Date of AGM was 19 June 2012. Thus, distribution was made at least 15 business days before the date of the AGM as required by the Sec regulations)
<b>State whether CD format or hard copies were distributed</b>	Both hard copies and CD copies of the Definitive Information Statement were distributed / sent to the stockholders.
<b>If yes, indicate whether requesting stockholders were provided hard copies</b>	Both hard copies and CD copies of the Definitive Information Statement were distributed / sent to the stockholders.

**(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:**

Each resolution to be taken up deals with only one item.	Every resolution submitted for shareholders approval is taken up separately. The Company does not practice the bundling of resolutions.
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	No.



The auditors to be appointed or re-appointed.	No.
An explanation of the dividend policy, if any dividend is to be declared.	No dividend was declared for the last AGM, thus there was no indication of the dividend policy in the Notice.
The amount payable for final dividends.	n/a
Documents required for proxy vote.	The Notice expressly states that proxies must be filed and received by the Office of the Corporate Secretary of the Company before the date set for the AGM.

On the matter of the nominated directors, the profiles are submitted to the Nomination Committee for evaluation.

## 2) Treatment of Minority Stockholders

### (a) State the company's policies with respect to the treatment of minority stockholders.

The Company is mindful of the rights of both the majority and minority shareholders, and treats both equally and fairly. It ensures that there are no impediments to the exercise by both the majority and minority shareholders of their rights, and that both have access to channels and venues for redress instituted by the Company for the airing of their complaints, concerns, and/or grievances. . In the case of minority shareholders, in Article 6 of the Company's Manual of Corporate Governance, minority shareholders have the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Company.

### (b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes, minority shareholders have a right to nominate candidates for the Company's Board of Directors. There is no impediment to the exercise of such right by any minority shareholder of the Company. In fact, the Company publishes each year, at least 30 day before the date of the AGM, in a newspaper of general circulation, a Notice, calling on all shareholders to submit the nominations for the regular and independent members of the Company's Board of Directors to the Corporate Secretary. The Corporate Secretary shall be responsible for forwarding all nominations received to the Company's Nomination Committee for evaluation.

## K. INVESTORS RELATIONS PROGRAM

The Board and the Company recognize that a key part of governance is its open and effective engagement with its shareholders and stakeholders, so that measures are in place to assure open channels of communications. Thus, shareholders can raise comments on the performance and future directions of the Company during the annual stockholders meetings; annual results are distributed to the stockholders and disclosed to the public; the Company's website features various information and announcements about the Company and its operations, directions, disclosures, and financial strength, as well as encourages feedback from shareholders and the public alike. For significant announcements of the Company, after proper disclosures would have been made to the regulators (SEC and PSE), briefings or press releases are distributed to the media in order to reach a wider audience. Significant announcements of the Company are passed upon the Executive Committee and

by the Board of Directors. Internally, the Company ensures that the relevant responsibility centers in respect of investor relations are abreast of their respective mandates.

- 1) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	<p>The Company's objective in instituting the various channels of communications to encourage interaction with its various stakeholders and the public in general, is to keep said stakeholders abreast of The company's business direction and various developments. Other objectives in opening communications are to promote transparency, encourage feedback from stakeholders and productive interaction between the Company and its stakeholders, institute accessible venues to air stakeholder complaints or concerns, among other.</p> <p>Investors relations are handled by the office of the Company Secretary and/or the Company's Marketing Division.</p> <p>Contact details are as follows:  The Corporate Secretary /Marketing Department  Tel: (02) 370-2700  Fax: (02) 370-2698  Email: bobong.noel@shangproperties.com</p>
(2) Principles	The Company's guiding principle is the continued effective engagement by the Company with its various stakeholders is one of the pillars of good governance to which the Company undertakes all efforts to observe.
(3) Modes of Communications	Modes and channels of communications with the Company may be through (i) the company website which features a feedback mechanism (email to the Company); (ii) the AGM proper where stockholders are encouraged to engage the directors and management officers directly in discussion on matters relating to the Company; (iii) public announcements through the various media; (iv) prompt disclosures made to the regulatory authorities (SEC and PSE).
(4) Investors Relations Officer	Atty. Federico G. Noel, Jr. / Ms. Milen Treichler

- 3) The Company has not undertaken during the last fiscal year, any acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, nor any sale of substantial portions of its corporate assets.

#### L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

The Company does not have a regular CSR beneficiary. However, the Company harnesses its resources to donate to victims of major calamities. Some recent examples are donations (of food, water, and necessities) made to victims of typhoons Sending, Milenyo, Pablo.



**M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL**

The Company's President, senior officers, and employees are subjected to a yearly performance evaluation through the Company's Performance Evaluation Development System (PEDS). With the PEDS, specific objective are set (i.e., output/deliverables to be accomplished are determined; the standards to measure the attainment of end results is established; specific actions to accomplish the end results are identified. He is rated by the Board of Directors on the basis of each of the specific functions and responsibilities of his office as indicated in a formal evaluation form). The CEO's/President's performance for the year is then appraised and assessed against these performance measures and targets.

**(c) INTERNAL BREACHES AND SANCTIONS**

Breaches of corporate governance policies, many of which hew closely to the Company's Code of Business Ethics shall be subjected to the proper investigation and appropriate corrective action. The severity of the corrective action shall depend on the nature of the breach.

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Mandaluyong on 29 MAY 2013.

**SIGNATURES**

<u>EDWARD KUOK KHOON LOONG</u> Chairman of the Board	<u>(Signature over Printed Name)</u> Chief Executive Officer
<u>ALFREDO C. RAMOS</u> Independent Director	<u>JOHNNY O. COBANKIAT</u> Independent Director
<u>FEDERICO G. NOEL, JR.</u> Compliance Officer	

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of May 2013 affiant(s) exhibiting to me their passport, as follows:

<u>NAME/NO.</u>	<u>Passport No.</u>	<u>DATE/PLACE OF ISSUE</u>
Edward Kuok Khoon Loong	20506956	08.17.2011/Hong Kong
Alfredo C. Ramos	EB4871488	03.05.2012/Manila
Johnny O. Cobankiat		
Federico G. Noel, Jr.	EB7578429	03.07.2013/Manila

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Series of 2013

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