



THE PHILIPPINE STOCK EXCHANGE, INC.

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Company Name : Shang Properties, Inc.

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13 November 2013

**PHILIPPINE STOCK EXCHANGE**

*Disclosure Department*

3<sup>rd</sup> Floor, Philippine Stock Exchange Plaza

Ayala Triangle, Ayala Avenue

Makati City, Philippines 1226

Attention: **MS. JANET A. ENCARNACION**  
Head, Disclosure Department

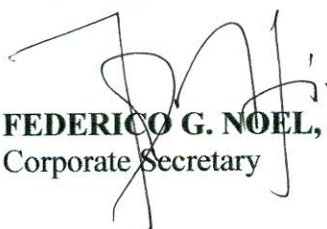
Re: **SHANG PROPERTIES, INC. (SPI)**

Gentlemen:

We furnish herewith a copy of SPI's Form 17-Q, which we have filed with the Securities and Exchange Commission.

Thank you.

Very truly yours,

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





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## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
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Company Information

SEC Registration No. 0000145490

Company Name SHANG PROPERTIES, INC.

Industry Classification

Company Type Stock Corporation

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SEC Registration Number

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(Company's Full Name)

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

Atty. Federico G. Noel, Jr.

(Contact Person)

3702700

(Company Telephone Number)

1 2

Month

3 1

Day

(Calendar Year)

1 7 - Q 3

(Form Type)

Month

Day

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not applicable

Amended Articles Number/Section

Total Amount of Borrowings

-

Domestic

-

Foreign

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q  
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE

1. For the quarterly period ended : 30 September 2013
2. Commission Identification Number : 145490
3. BIR Tax Identification Number : 000-144-386

**SHANG PROPERTIES, INC.**

4. Exact name of the Issuer as specified in this charter: \_\_\_\_\_
5. Province, country or other jurisdiction of incorporation or organization: Not Applicable
6. Industry Classification Code:  (SEC Use Only)
- Level 5, Shangri-La Plaza Mall, EDSA cor Shaw Boulevard, Mandaluyong City 1550
7. Address of issuer's principal office \_\_\_\_\_ Postal Code \_\_\_\_\_
- (632) 370-2700
8. Issuer's telephone number, including area code \_\_\_\_\_
9. Former name, former address and former fiscal year, if changed since last report: \_\_\_\_\_
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA.

<u>Title of each Class</u>	<u>Number of shares of common stock outstanding and amount of debt outstanding</u>
Common Stock	4,764,056,287 common shares

11. Are any or all of the securities listed on a Stock Exchange?

Yes [ x ]      No [   ]

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

Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

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

Yes [ x ]      No [   ]

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

Yes [ x ]      No [   ]

## PART 1 – FINANCIAL INFORMATION

### Item 1. Financial Statements

Please see attached.

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

Please see attached.

## SIGNATURES

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

### SHANG PROPERTIES, INC.

Issuer

By:

  
**KIN SUN ANDREW NG**  
Group Financial Comptroller

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

Date of Signing: 12 November 2013



## PART 1 – FINANCIAL INFORMATION

### Item 1. Financial Statements

The Pro-Forma Consolidated Financial Statements (unaudited) of SHANG PROPERTIES INC. (the “Company”) and its subsidiaries for the period ended 30 September 2013 are attached as Annex “A”.

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

#### Key Performance Indicators

		September 30 2013	September 30 2012	Change
Turnover	(Php M)	4,706.2	3,699.3	27.2%
Profit attributable to shareholders	(Php M)	1,432.6	1,029.1	39.2%
Earnings per Share	(Php Ctv)	0.301	0.216	39.2%
Net Asset Value per share	(Php)	4.441	4.120	7.8%
Debt to Equity Ratio	(Ratio)	0.582:1	0.562:1	3.5%

- Turnover consists of Condominium Sales, Rental Revenue, Interest Income and Other Income. For the nine (9) months ended September 30, 2013, the Group's consolidated revenues amounted to P4,706.2M, higher by P1,006.9M or 27.2% from P3,699.3M of total revenues realized in the same period last year. The condominium sales posted an increase of P655M mainly due to higher sales from One Shangri-la Place. Leasing operation posted a revenue growth of 26.9% or P363.3M to P1,785.7M in 2013 from P1,352.4M in 2012. Rental escalation and the opening of new mall at East Wing of the Shangri-La Plaza on March 1, 2013 increased the rental revenues. Rental revenue from Edsa Shangri-La Hotel slightly decreased by P2.7M.
- Profit attributable to equity holders of Parent Company amounted to P1,432.6M, higher by P403.5M or 39.2% compared with the same period last year.
- Earnings per share for the nine months ended September 30, 2013 showed positive variance of 39.2% to P0.301 from last year's P0.216.
- Net Asset value per share is calculated by dividing the total net asset of the Group (Total asset – Total liabilities and minority interest) by the number of shares outstanding. Net asset value per share increased by 7.8% mainly due to the income generated during the period.
- Debt to Equity measures the exposure of creditors to that of the stockholders. It gives an indication of how leveraged the group is. It is determined by dividing total debt by stockholder's equity. The Group's financial position remains solid with debt to equity ratio of 0.582:1 as of 30 September 2013 and 0.562:1 as of 30 September 2012.

## **Financial Condition**

Total assets of the Company amounted to P38.2 billion, an increase of P2.2B from total assets of P36.0B in December 31, 2012. The following are significant movements in the assets:

- Increase in cash and cash equivalents by P312.7M mainly due to sales collection from new projects and proceeds from bank loans.
- Financial assets at fair value decreased by P3.2M due to the drop in stock market.
- Receivables increased by P1,465.7M mainly due to higher installment receivables of condominium sales.
- Decrease in condominium units held for sale by P22.5M mainly due to the units sold at St. Francis Shangri-La Place.
- Decrease in Construction in Progress by P1,003.2M mainly due to completed projects at East Wing of Shangri-La Plaza Mall.
- Decrease in prepayments and other current assets by P45.7 due to the release of cash in escrow amounting to P45.7M. Cash in escrow in 2012 pertains to the cash deposited in a local bank in compliance with the escrow agreement between Shang Property Developers Inc. (SPDI), a local bank and the Housing and Land Use Regulatory Board (HLURB).
- Increase in investment properties by P1,477.7M was mainly due to transfer from Construction in Progress the completed project at East Wing of Shangri-la Plaza Mall.
- Decrease in refundable deposits by P11.5M due to the refund of certain deposit during the period.
- Deferred income tax assets increased by P107.2M mainly due to payment of income tax based on sales collection.
- Current ratio is 2.12:1 as of September 30, 2013 from 2.09:1 as of December 31, 2012.

Total liabilities increased by P1.2B from P12.8B in 2012 to P14.0B in 2013 due to the following:

- Increase in accounts payable and other current liabilities by P430.7M mainly due to payables for the construction of new projects.
- Income tax payable increased by P30.3M due to taxable income generated during the period.
- Dividends payable increased by P3.1M mainly due to declaration of cash dividends amounting to of P238,202,94 or P0.050 on August 14, 2013.
- Decrease in accrued employee benefits by P5.1M due to the payments made during the period.
- Increase in bank loans was primarily due to availments during the period.



- Increase in deposit from tenants by P80.8M was mainly due to higher level of deposits from lessees of newly opened mall and new tenants from The Enterprise Center.

### **Results of Operation**

Consolidated Net Income for the period ended September 30, 2013 amounted to P1,432.6M higher by 39.2% from last year's P1,029.1M due to the following:

#### **A. Condominium Projects:**

- Increase in condominium sales by P655M due to higher sales and completion level of the Projects.

#### **B. Leasing Operations:**

- Shangri-La Plaza's growth was mainly generated by the revenue of new mall at East Wing and rental escalation of the existing mall.
- Increase in rental revenue from The Enterprise Center due to higher average occupancy of 96.2% this year from last year's 84.6%.

C. Other activities include cinema, interest and other income derived by the Company from its landholdings and other investments. Decrease in other income was mainly due to less dividend income received in investments in 2013.

Total Expenses of the Group amounted to P2,538.3M, 13.4% higher compared with last year's P2,237.4M. This was mainly due to the following:

- Increase in cost of condominium as a result of the increase in sales.
- General and administrative expenses decreased by P18.9M mainly due to lower marketing and advertising expenses and less condominium dues paid for completed project as more units were already handed over to buyers.
- Increase in depreciation expense by P1.5M due to the purchase of office equipment.
- Interest expense and bank charges increased by P6.9M mainly due to additional loan availment.
- Insurance expense increased by P2.6M due to higher premiums paid during the period.
- Unrecovered reimbursable expenses increased by P67.7M mainly due to utilities, janitorial and security maintenance of the new mall.

Share in net profits of associates decreased by P17.7M mainly due to Net Loss recorded by associate companies during the period.

Increase in net income attributable to minority interest was due to the higher level of income generated by KSA Realty Corporation during the period.

Provision for income tax is higher by P230.5M mainly due to higher taxable income generated during the period as against the same period last year.

## Financial Soundness Indicators

	End of September 2013	End of December 2012
Current Ratio <sup>1</sup>	2.12:1	2.09:1
Debt-to-equity ratio <sup>2</sup>	0.58:1	0.55:1
Asset-to-equity ratio <sup>3</sup>	1.58:1	1.55:1
	3Q 2013 <sup>7</sup>	3Q 2012
Interest rate coverage ratio <sup>4</sup>	16.84:1	12.85:1
Return on assets <sup>5</sup>	5.2%	3.9%
Return on equity <sup>6</sup>	8.1%	6.2%

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

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

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

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

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

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

<sup>7</sup>2Q13Net income after tax annualized/average of end September-2013 and end Dec-12 assets and equity

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

- There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely result in the registrant's liquidity increasing or decreasing in any material way.
- There are no known events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of obligation.
- There are no off material balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- There are no material commitments for capital expenditures.
- There are no known trends, events or uncertainties that have had or that are reasonably expected to have material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- There are no significant elements of income or loss that did not arise from the registrant's continuing operations.



- There are no material changes in periodical reports.
- There are no seasonal aspects that had a material effect on the financial statements.

## **PART II – OTHER INFORMATION**

### **Item 3. Other Required Disclosures**

- A.) The attached interim financial reports were prepared in accordance with Philippine Financial Reporting Standard. The accounting policies and methods of computation followed in these interim financial statements are the same compared with the audited financial statements for the period ended December 31, 2012.
- B.) Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.
- C.) There were no materials changes in estimates of amounts reported in prior period that have material effects in the current interim period.
- D.) Except as disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there were no other issuances, repurchases and repayments of debt and equity securities.
- E.) There are no significant events happened subsequent to September 30, 2013 up to the date of this report that needs disclosure herein.
- F.) For the required disclosure as per SEC letter dated October 29, 2008 on the evaluation of the company's risk exposure and financial instruments profile please see Note 10 of the attached interim financial statement.

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

	Notes	Unaudited September 30 2013	Audited December 31 2012
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		1,913,610,912	1,600,953,309
Financial assets at fair value through profit and loss		29,076,965	32,275,696
Receivables-net		2,822,939,263	1,357,200,705
Properties held for sale:			
Condominium Units held		187,961,857	210,446,366
Construction in Progress		2,136,260,814	3,139,517,781
Prepayment and other current assets		613,597,376	659,300,300
<b>Total Current Assets</b>		<b>7,703,447,187</b>	<b>6,999,694,157</b>
<b>Non-Current Assets</b>			
Investment in associates	4	2,438,847,584	2,514,445,602
Investment properties		26,631,530,357	25,153,790,359
Real estate development projects		289,483,813	281,040,423
Available-for-sale (AFS) financial assets		502,022,842	502,022,842
Property and equipment - net	5	68,406,007	71,318,828
Refundable deposits		31,499,058	42,955,708
Deferred income tax assets		510,407,250	403,249,590
<b>Total Non-Current Assets</b>		<b>30,472,196,912</b>	<b>28,968,823,352</b>
<b>Total Assets</b>		<b>38,175,644,099</b>	<b>35,968,517,510</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities		2,183,005,588	1,752,258,364
Income tax payable		71,830,645	41,524,854
Dividends payable		21,108,500	17,955,099
Current portion of bank loans	6	772,295,238	952,980,952
Current portion of deposit from tenants		551,484,457	551,484,457
Current portion of deferred lease income		35,996,990	35,996,990
<b>Total Current Liabilities</b>		<b>3,635,721,418</b>	<b>3,352,200,716</b>
<b>Non-Current Liabilities</b>			
Accrued employee benefits		32,134,390	37,187,272
Unearned income			
Bank loans- net of current portion	6	4,409,523,809	3,543,452,381
Deferred income tax liabilities		5,619,510,469	5,598,041,640
Deposit from tenants		298,843,382	218,016,170
Deferred lease income - net of current portion		41,724,184	41,724,184
<b>Total Non-Current Liabilities</b>		<b>10,401,736,234</b>	<b>9,438,421,647</b>
<b>TOTAL LIABILITIES</b>		<b>14,037,457,652</b>	<b>12,790,622,363</b>
<b>Stockholders' Equity</b>			
Capital stock - Peso 1 par value		4,764,058,982	4,764,058,982
Additional paid-in capital		834,439,607	834,439,607
Treasury shares		(6,850,064)	(6,850,064)
Other components of equity		2,512,170	1,885,237
Retained earnings		15,563,748,006	14,654,957,228
Minority interest		2,980,277,747	2,929,404,157
<b>Total equity</b>		<b>24,138,186,447</b>	<b>23,177,895,147</b>
<b>Total Liabilities and Equity</b>		<b>38,175,644,099</b>	<b>35,968,517,510</b>



## SHANG PROPERTIES INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS  
FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	UNAUDITED FOR THE THREE MONTHS		UNAUDITED FOR THE NINE (9) MONTHS ENDED	
	Jul 1 to Sep 30 2013	Jul 1 to Sep 30 2012	30-Sep-13	30-Sep-12
<b>INCOME</b>				
Condominium Sales	1,087,304,704	944,572,041	2,707,518,863	2,052,531,940
Rental	685,886,125	498,470,549	1,715,656,237	1,352,406,187
Others	24,166,932	108,174,229	283,034,114	294,385,409
	1,797,357,762	1,551,216,818	4,706,209,214	3,699,323,536
<b>EXPENSES</b>				
Cost of condominium sales	670,100,405	788,806,959	1,915,912,720	1,672,888,908
General and administrative	91,590,176	90,854,854	282,424,516	301,350,390
Depreciation	4,649,307	4,155,264	13,607,977	12,128,427
Taxes, licenses and fees	29,449,343	30,418,690	112,365,305	114,218,210
Interest and bank charges	47,891,190	44,913,097	137,087,684	130,229,432
Insurance	4,953,451	3,085,201	11,537,458	8,889,747
Unrecoverable tenants reimbursements	43,932,534	1,960,905	65,399,328	(2,298,894)
	892,566,407	964,194,971	2,538,334,987	2,237,406,220
<b>INCOME(LOSS) BEFORE SHARE IN PROFIT OF AN ASSOCIATE COMPANY</b>	904,791,355	587,021,848	2,167,874,227	1,461,917,316
<b>SHARE IN PROFIT OF AN ASSOCIATED COMPANY</b>	(2,192,158)	1,932,819	(5,634,184)	12,061,102
<b>INCOME(LOSS) BEFORE MINORITY INTEREST</b>	902,599,197	588,954,667	2,162,240,043	1,473,978,417
<b>MINORITY INTEREST</b>	(74,699,690)	(56,924,696)	(215,723,563)	(161,496,640)
<b>INCOME BEFORE TAX</b>	827,899,507	532,029,971	1,946,516,480	1,312,481,777
<b>PROVISION FOR INCOME TAX</b>	(221,074,680)	(137,055,235)	(513,914,459)	(283,423,095)
<b>NET INCOME</b>	606,824,826	394,974,736	1,432,602,021	1,029,058,682
<b>RETAINED EARNINGS, beg.</b>	15,195,019,196	13,833,040,836	14,654,957,222	13,398,957,430
<b>LESS: CASH DIVIDENDS</b>	(238,096,017)	(190,562,251)	(523,811,237)	(390,562,791)
<b>RETAINED EARNINGS, end.</b>	15,563,748,006	14,037,453,321	15,563,748,006	14,037,453,321
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>0.127</b>	<b>0.083</b>	<b>0.301</b>	<b>0.216</b>

(See accompanying notes to consolidated financial statements)

**SHANG PROPERTIES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**

	(Unaudited)	(Unaudited)
	September 30, 2013	September 30, 2012
Notes		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before income tax	1,946,516,480	1,312,481,778
Adjustment for:		
Depreciation and amortization	13,607,977	12,128,427
Share in profit (loss) of associate companies	5,634,184	(12,061,102)
Cumulative translation adjustment	626,933	(234,120)
Change in fair value of financial assets at FVPL	3,198,732	(3,029,197)
Interest income	(186,537,791)	(184,223,143)
Interest expense	136,467,891	124,219,027
Operating income before working capital changes	1,919,514,405	1,249,281,670
(Increase) decrease in:		
Receivables	(1,465,738,558)	193,601,461
Construction in progress	1,003,256,967	(386,386,529)
Other current assets	45,702,924	57,359,033
Condominium Units held for sale	22,484,509	(217,318,850)
Increase (decrease) in:		
Accounts payable and accrued expenses	430,747,224	(208,274,530)
Accrued employee benefits	(5,052,882)	(6,832,462)
Deposits from tenants	80,827,212	126,335,606
Net cash generated from (used in) from operations	2,031,741,801	807,765,399
Income taxes paid	(373,322,674)	(184,656,930)
Interest received	186,537,791	184,223,143
<b>Net cash from (used in) from operating activities</b>	1,844,956,918	807,331,612
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in investments in associates	75,598,019	26,997,598
Increase in investments properties	(1,477,739,999)	(110,996,997)
Dividends received	3,385,958	39,295,989
Acquisition of property and equipment	(11,447,227)	(16,950,110)
Decrease (increase) in other assets	11,456,650	(14,273,142)
<b>Net cash (used in) from investing activities</b>	(1,398,746,599)	(75,926,662)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank loan	1,400,000,000	500,000,000
Payment of bank loans	(714,614,286)	(568,780,953)
Payment of interest	(135,769,510)	(124,219,027)
Cash dividends paid to:		
Stockholders	7 (520,657,836)	(279,502,246)
Non-controlling shareholders of subsidiaries	(164,850,000)	(117,750,000)
<b>Net cash used in financing activities</b>	(135,891,632)	(590,252,226)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	2,338,916	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	312,657,603	141,152,724
<b>CASH AND CASH EQUIVALENTS</b>		
1 January	1,600,953,309	1,436,747,742
30 September	1,913,610,912	1,577,900,466

(See accompanying notes to consolidated financial statements)

SHANG PROPERTIES INC. & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)

	Notes	Capital Stock Pesos	Additional Paid-in Capital Pesos	Treasury Shares Pesos	Other Components of Equity	Retained Earnings Pesos	Total	Non-controlling Interest (NCI) Pesos	Total Pesos
<b>Balance as of 1 January 2012</b>		<b>4,764,058,982</b>	<b>834,439,607</b>	<b>(6,850,064)</b>	<b>1,524,087</b>	<b>13,398,957,430</b>	<b>18,992,130,042</b>	<b>2,798,249,204</b>	<b>21,790,379,246</b>
Cumulative translation adjustment		-	-	-	(234,120)	-	(234,120)	-	(234,120)
Cash dividends	7	-	-	-	-	(390,562,791)	(390,562,791)	(117,750,000)	(508,312,791)
Net income for the period		-	-	-	-	1,029,058,682	1,029,058,682	161,496,640	1,190,555,322
<b>Balance as of 30 September 2012</b>		<b>4,764,058,982</b>	<b>834,439,607</b>	<b>(6,850,064)</b>	<b>1,289,967</b>	<b>14,037,453,321</b>	<b>19,630,391,813</b>	<b>2,841,995,844</b>	<b>22,472,387,657</b>
<b>Balance as of 1 January 2013</b>		<b>4,764,058,982</b>	<b>834,439,607</b>	<b>(6,850,064)</b>	<b>1,885,237</b>	<b>14,654,957,222</b>	<b>20,248,490,984</b>	<b>2,929,404,157</b>	<b>23,177,895,141</b>
Cumulative translation adjustment		-	-	-	626,933	-	626,933	-	626,933
Cash dividends	7	-	-	-	-	(523,811,237)	(523,811,237)	(164,850,000)	(688,661,237)
Net income for the period		-	-	-	-	1,432,602,021	1,432,602,021	215,723,590	1,648,325,610
<b>Balance as of 30 September 2013</b>		<b>4,764,058,982</b>	<b>834,439,607</b>	<b>(6,850,064)</b>	<b>2,512,170</b>	<b>15,563,748,005</b>	<b>21,157,908,700</b>	<b>2,980,277,747</b>	<b>24,138,186,447</b>

(See accompanying notes to consolidated financial statements)



SHANG PROPERTIES INC. AND SUBSIDIARIES  
AGING OF TRADE RECEIVABLES  
AS OF SEPTEMBER 30, 2013

TENANTS	TOTAL		P A S T D U E				
	RECEIVABLES	CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-120 DAYS	OVER 120
MALL TENANTS	231,446,278	190,826,379	8,232,810	6,898,380	4,120,481	5,143,102	16,225,126
EDSA SHANGRI-LA HOTEL & RESORT	19,333,354	19,333,354					
TECC TENANTS	21,253,887	6,231,650	3,940,218	1,994,759	9,087,259		
INSTALLMENT CONTRACTS RECEIVABLES & OTHERS	2,550,905,744	2,550,905,744					
	2,822,939,263	2,767,297,128	12,173,028	8,893,139	13,207,740	5,143,102	16,225,126

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

  
KIMSUN ANDREW NG  
Group Financial Controller

SHANG PROPERTIES INC. AND SUBSIDIARIES  
AGING OF TRADE RECEIVABLES  
AS OF SEPTEMBER 30, 2013

TENANTS	P A S T D U E					
	TOTAL RECEIVABLES	CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-120 DAYS OVER 120
MALL TENANTS	231,446,278	190,826,379	8,232,810	6,898,380	4,120,481	5,143,102
EDSA SHANGRI-LA HOTEL & RESORT	19,333,354	19,333,354				
TECC TENANTS	21,253,887	6,231,650	3,940,218	1,994,759	9,087,259	
INSTALLMENT CONTRACTS RECEIVABLES & OTHERS	2,550,905,744	2,550,905,744				
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						16,225,126

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

  
KENNETH ANDREW NG  
Group Financial Controller

## SHANG PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE (9) MONTHS ENDED 30 SEPTEMBER 2013 AND 2012

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

##### Basis of Preparation

The interim consolidated financial statements have been prepared under the historical cost basis, except for investment properties, financial assets at FVPL and AFS financial assets that have been measured at fair value. Except for GipseY and SHIL whose financial statements are translated from Hong Kong Dollar (HK\$) to Philippine Peso (Peso), the consolidated financial statements of the Group are presented in Peso, which is the Parent Company's functional and presentation currency, with amounts rounded to the nearest Peso unit.

##### Statement of Compliance

The interim consolidated financial statements, which are prepared for submission to the SEC, have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS also includes Philippine Accounting Standards (PAS), including Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) by the Financial Reporting Standards Council (FRSC).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of the year ended December 31, 2012.

##### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations which were adopted as of January 1, 2012 and that are deemed to have an impact on the financial position or performance of the Group :

- PAS 12, *Income Taxes — Deferred Taxes: Recovery of Underlying Assets* (Amendments)  
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

The Group has investment properties carried at fair value determined using the 'sale' basis approach. Assets under PAS 16 are depreciable assets carried at cost model. The amendments have no impact on the consolidated financial statements of the Group.

The following amendments to PFRS and Philippine Interpretation did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 1, *First-time Adoption of PFRS* (Amendment) - *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*



The amendment provided guidance on how an entity should resume presenting PFRS financial statements when its functional currency ceases to be subject to hyperinflation.

- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Transfers of Financial Assets*  
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (Amendment)  
The amendment provides further guidance on assessing the recoverable amount of a net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset. New standards issued but not yet effective up to the date of issuance of the consolidated financial statements are listed below. This is a listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.
- PAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (Amendments)  
The amendments to PAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.
- PAS 19, *Employee Benefits* (Revised)  
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

As of  
December 31,  
2012

Increase (decrease) in:	
<u>Consolidated statements of financial position</u>	
Accrued retirement benefit	P29,891,034
Deferred tax asset	8,967,310
Other comprehensive income	(39,791,666)
Retained earnings	10,635,440
	2012
<u>Consolidated statements of comprehensive income</u>	
Net retirement cost	(P1,668,130)
Income tax expense	(8,967,310)
Profit for the year:	
Attributable to owners of the Parent Company	(8,453,709)
Attributable to non-controlling interests	12,110

- PAS 27, *Separate Financial Statements* (as revised in 2011)  
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)  
As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28, *Investments in Associates*, has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after January 1, 2013.
- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)  
The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- PFRS 1, *Government Loans* (Amendments)  
These amendments require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. Entities may choose to apply the requirements of PFRS 9 (or PAS 39, as applicable) and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after January 1, 2013. The amendment has no impact on the consolidated financial statements of the Group.



- PFRS 7, *Financial Instruments: Disclosures* — Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- PFRS 10, *Consolidated Financial Statements*, PAS 27, *Separate Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single



control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013. The standard will have no significant impact on the consolidated financial statements of the Group.

- PFRS 11, *Joint Arrangements*  
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities -Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013. The standard will have no significant impact to the consolidated financial statements of the Group.
- PFRS 12, *Disclosure of Interests in Other Entities*  
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*  
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The management is still assessing the impact of the interpretation to the consolidated financial statements of the Group.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*



This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (“stripping activity asset”). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

- *Annual Improvements to PFRS Issued in 2010, May 2012*  
The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.
- *PFRS 1, First-time Adoption of PFRS — Borrowing costs*  
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- *PAS 1, Presentation of Financial Statements — Clarification of the requirements for comparative information*  
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.
- *PAS 16, Property, Plant and Equipment — Classification of servicing equipment*  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group’s financial position or performance.
- *PAS 32, Financial Instruments: Presentation — Tax effects of distributions to holders of equity instruments*  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- *PAS 34, Interim Financial Reporting — Interim financial reporting and segment information for total assets and liabilities*



The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

## 2. Basis of Consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Group as of September 30, 2013 and December 31, 2012 and for the nine (9) months ended September 30, 2013 and 2012.

### *Subsidiaries*

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date on which control ceases. The results of operations of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, income and expenses, and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

### *Associates*

Associates are all entities over which the Parent Company has significant influence but not control, and are generally accompanying a shareholding of between 20% to 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost.

The Parent Company's share in its associates' post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Parent Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Parent Company's subsidiaries and associates follow:

	<u>Effective Percentages of Ownership</u> <u>As of 30.09.13</u>
<i>Property Development:</i>	
SPRC	100.00%
SPDI	100.00%
<i>Leasing:</i>	
SPI Parking Services, Inc. (SPSI)	100.00%
SLPC	100.00%
KSA Realty Corporation (KSA)	52.90%
<i>Real Estate:</i>	
Ivory Post Properties, Inc. (IPPI)	100.00%
KPPI Realty Corporation (KRC)	100.00%



Martin B. Properties, Inc. (MBPI)	100.00%
NCRI	100.00%
Perfect Sites, Inc. (PSI)	100.00%
Shang Fort Bonifacio Holdings, Inc. (SFBHI)	100.00%
Shang Global City Holdings, Inc. (SGCHI)	100.00%
Sky Leisure Properties, Inc. (SLPI)*	50.00%
Ideal Sites and Properties, Inc. (ISPI)	40.00%
Shang Global City Properties, Inc.**	40.00%
<i>Property Management:</i>	
KPPI Management Services Corporation (KMSC)	100.00%
Shang Property Management Services, Inc. (SPMSI)	100.00%
<i>Hotel:</i>	
Fort Bonifacio Shangri-la Hotel, Inc. (FBSHI)***	40.00%
<i>Others:</i>	
Gipsey (BVI Company)	100.00%
SHIL (BVI Company)****	100.00%
EPHI Logistics Holdings, Inc. (ELHI)	60.00%

\*Owned through SPI.

\*\*Owned through SGCHI.

\*\*\*Owned through SFBHI.

\*\*\*\*Owned through Gipsey.

The Company has no seasonality or cyclicity of interim operations.

### 3. Segment Information

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

The Group has operations only in the Philippines.

As of September 30, 2013, the Group derives revenues from two main segments as follows:

#### *Property Development*

This business segment pertains to the sale of condominium units from the Projects.

#### *Leasing*

This business segment pertains to the leasing operations of the Shangri-La Plaza Mall (Shangri-La), The Enterprise Center (TEC) and their related carpark operations. It also includes leasing of a portion of the Parent Company's land to Edsa Shangri-La Hotel and Resort, Inc. (ESHRI), an affiliate through interlocking directors.

#### *Others*

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

Revenue solely came from transactions with third parties. There is no transaction with a single external customer that amount to 10% or more of the Group's aggregate revenues.

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the nine (9) months ended September 30, 2013 are as follows:

	Property Development	Leasing	Others	Total
Revenue/sales	P 2,707,518,863	P 1,715,656,237	–	P 4,423,175,101
Cost of sales/service	(1,915,912,720)	–	–	(1,915,912,720)
Gross profit	791,606,144	1,715,656,237	–	2,507,262,381
Cinema	–	42,835,027	–	42,835,027
Other income	11,924,406	16,885,465	22,512,508	51,322,379
Staff costs	(26,650,578)	(154,827,505)	6,024,576	(175,453,507)
General and administrative expenses	(35,898,285)	(68,177,873)	(2,894,851)	(106,971,008)
Taxes and licenses	(17,731,938)	(93,949,864)	(683,503)	(112,365,305)
Unreimbursed share in common expenses	–	(65,399,328)	–	(65,399,328)
Insurance	(115,579)	(11,411,460)	(10,419)	(11,537,458)
Depreciation and amortization	(1,122,633)	(12,420,969)	(64,375)	(13,607,977)
Segment results	722,011,538	1,369,189,730	24,883,936	2,116,085,204
Interest income	162,989,529	23,337,443	210,819	186,537,791
Foreign exchange gain (loss)	1,153,821	1,172,692	12,403	2,338,916
Share in net income of associates	–	–	(5,634,184)	(5,634,184)
Interest	(448,479)	(136,638,641)	(563)	(137,087,684)
Provision for income tax	(259,983,151)	(249,437,240)	(4,494,067)	(513,914,459)
Net income for the year	P 625,723,258	P 1,007,623,984	P 14,978,343	P 1,648,325,584
Segment assets	P 8,500,279,596	P 23,191,350,650	P 4,045,166,269	P 35,736,796,515
Associate company	–	2,036,061,461	402,786,123	2,438,847,584
Total assets	P 8,500,279,596	P 25,227,412,111	P 4,447,952,392	P 38,175,644,099
Segment liabilities	P 3,023,531,577	P 10,699,274,677	P 314,651,398	P 14,037,457,652
Capital expenditures	P 1,620,523	P 9,523,451	P 303,253	P 11,447,226

The segment results as of and for the year ended December 31, 2012 follows:

	Property Development	Leasing	Others	Total
Revenue/sales	P 2,698,045,454	P 1,848,769,513	–	P 4,546,814,967
Cost of sales/service	(2,224,877,909)	–	–	(2,224,877,909)
Gross profit	473,167,545	1,848,769,513	–	2,321,937,058
Cinema	–	53,090,582	–	53,090,582
Increase in fair value of investment property	–	386,646,054	13,480,000	400,126,054
Other income	22,887,316	45,783,293	55,885,135	124,555,744
Staff costs	(47,616,924)	(166,838,678)	(6,602,937)	(221,058,539)
General and administrative expenses	(68,244,856)	(130,973,314)	(2,716,008)	(201,934,178)
Taxes and licenses	(24,864,649)	(119,346,780)	(361,748)	(144,573,177)
Unreimbursed share in common expenses	–	(11,051,866)	–	(11,051,866)
Insurance	(128,640)	(11,648,150)	(3,747)	(11,780,537)
Depreciation and amortization	(918,816)	(15,609,567)	(61,118)	(16,589,501)
Segment results	354,280,976	1,878,821,087	59,619,577	2,292,721,640
Interest income	244,767,711	39,026,904	718,998	284,513,613
Share in net income of associates	–	(16,829)	29,507,503	29,490,674
Foreign exchange gain (loss) – net	(2,133,165)	(714,910)	(23,868)	(2,871,943)
Interest expenses and bank charges	(742,409)	(171,534,589)	(2,480)	(172,279,478)
Provision for income tax	(130,698,039)	(399,401,708)	(6,092,764)	(536,192,511)
Net income for the year	P 465,475,074	P 1,346,179,955	P 83,726,966	P 1,895,381,995
Segment assets	P 6,074,183,653	P 22,969,117,307	P 4,410,770,948	P 33,454,071,908
Associate company	–	2,033,948,404	480,497,198	2,514,445,602
Total assets	P 6,074,183,653	P 25,003,065,711	P 4,891,268,146	P 35,968,517,510
Segment liabilities	P 1,148,575,596	P 11,328,675,963	P 313,370,804	P 12,790,622,363
Capital expenditures	P 2,939,643	P 24,632,349	P 215,700	P 27,787,692

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

#### Secondary Reporting Format - Geographical Segments

It is not necessary to present geographical segmentation as all revenues are derived from one principal place of business which is Metro Manila.



#### **4. Associate companies**

The breakdown of investment in associates is as follows:

	Pesos
Investment and advances for future stock subscription:	
Shang Global City Properties Inc.	1,414,212,629
Fort Bonifacio Shangri-la Hotel & Resort Inc.	621,848,832
Associate acquired thru the merger:	
Sky Leisure Properties Inc.	402,401,552
Other investments	384,571
Carrying value of investment in associates as of 30 September 2013	<u>2,438,847,584</u>

#### **5. Property and equipment**

The movements of the account can be analyzed as follows:

	Building and building improvement	Construction in Progress	Furniture, Fixtures and other Office Equipment	Total
Net book value as at 1 January 2013	Php29,864,653	Php6,347,032	Php35,107,144	Php71,318,829
Additions	2,317,365	942,954	8,186,907	11,447,226
Depreciation	(1,682,425)		(11,990,108)	(13,672,533)
Reclassification/disposal			(687,515)	(687,515)
Net book value as at 30 September 2013	Php30,499,592	Php7,289,986	Php30,616,428	Php68,406,007

#### **6. Bank loan**

Principal payments during the period amounted to P714.6M, while proceeds from loan availment amounted to P1.4B used to finance the Group's various projects.

#### **7. Dividends**

On 27 February 2013 and 14 August 2013, the Board approved the declaration of P285,843,539 cash dividend or P0.060 and P238,202,949 or P0.050 per share to all stockholders of record as of March 15, 2013 and August 30, 2013 to be taken up from the unrestricted retained earnings of the Parent Company as of December 31, 2012 and June 30, 2013, respectively.

#### **8. Related party transactions**

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

Transactions between related parties are on an arm's-length basis or on terms similar to those offered to non-related entities in an economically comparable market. The following are the transactions with related parties:



#### Related Party Transactions and Balances which were Not Eliminated During Consolidation

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

##### *Transactions with companies with interlocking directors*

- a. A portion of the Parent Company's land is being leased by ESHRI, where the latter's EDSA Shangri-La Manila Hotel (the Hotel) is located. The lease is for a period of 25 years commencing on August 28, 1992, renewable for another 25 years at the option of ESHRI, computed based on a fixed percentage of the Hotel's room, food and beverage, dry goods and other services revenue.
- b. SPMSI provides management services for TSGT of The Shang Grand Tower Condominium Corporation (TSGTCC), for TEC of The Enterprise Center Condominium Corporation (TECCC), and for TSFSP of TSFSPCC for a minimum period of five years starting January 7, 2007, January 7, 2009 and April 3, 2009, respectively. As consideration, SPMSI shall receive from TSGTCC, TECCC and TSFSPCC management fees of P100,000, P400,000 and P100,000, respectively, per month, inclusive of VAT, with an escalation rate of 10% per annum. TSGTCC, TECCC and TSFSPCC are affiliates through interlocking directors.
- c. Reimbursement of expenses paid for by SLPC for ESHRI.
- d. Condominium dues charged by TSFSPCC and TECCC.
- e. On January 1, 2001, the Parent Company entered into a cost sharing agreement with KSA and SLPC for the services rendered by the officers of the Parent Company to them.
- f. On May 6, 2009, the Parent Company acquired from MBRI, an affiliate through interlocking directors, 6.05% stake in the capital stock of Brown Swallow Development Corporation (BSDC), Green Mangrove Realty, Inc. (GMRI) and Clavall Realty Corporation (CRC), subsidiaries of MBRI, as follows:

	No. of Shares	Amount
BSDC	121	P30,189,863
GMRI	61	14,171,565
CRC	12,100	6,208,113

On the same date, NCRI purchased 285,513 redeemable shares of stock of Mactan Shangri-La Hotel and Resort, Inc. from MBRI amounting to P409,499,875.

These investments were presented as part of AFS financial assets.

- g. Unsecured, noninterest-bearing receivables and payables between related parties.

#### **9. Subsequent events**

There are no significant subsequent events that happened as of September 30, 2013 that needs disclosure herein.

#### **10. Commitments and contingencies**

A contingent liability with respect to the pending litigations of the Company described in Note 30 of the 2012 consolidated financial statements still exist as of date of interim consolidated financial statements.

## 11. Financial Instruments and Financial Risk Management

### Financial Instruments

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and financial liabilities that are carried in the consolidated financial statements.

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Financial assets at FVPL	<b>₱ 29,076,965</b>	<b>₱ 29,076,965</b>	<b>₱32,275,696</b>	<b>₱ 32,275,696</b>
Loans and receivables:				
Cash and cash equivalents*	1,891,968,291	1,891,968,291	1,573,227,845	1,573,227,845
Cash in escrow	-	-	55,066,771	55,066,771
Receivables:				
Installment contracts receivable	1,270,403,207	1,270,403,207	397,091,493	397,091,493
Rent	206,312,678	206,312,678	95,230,392	95,230,392
Related parties	96,212,407	96,212,407	20,512,634	20,512,634
Advances to officers and employees	1,686,488	1,686,488	2,008,535	2,008,535
Interest	618,152	618,152	1,138,118	1,138,118
Others	66,366,471	66,366,471	63,669,495	63,669,495
Refundable deposits	31,499,058	31,499,058	42,955,708	42,608,460
	<b>3,565,066,753</b>	<b>3,565,066,753</b>	<b>2,250,900,991</b>	<b>2,250,553,743</b>
AFS financial assets	<b>502,022,842</b>	<b>502,022,842</b>	<b>502,022,842</b>	<b>502,022,842</b>
	<b>₱4,096,166,559</b>	<b>₱4,096,166,559</b>	<b>₱2,785,199,529</b>	<b>₱2,784,852,281</b>
<b>Other Financial Liabilities</b>				
Accounts payable and other current liabilities**	<b>₱1,772,806,913</b>	<b>₱1,772,806,913</b>	<b>₱1,399,465,200</b>	<b>₱1,399,465,200</b>
Bank loans	<b>5,181,819,047</b>	<b>5,181,819,047</b>	<b>4,496,433,333</b>	<b>4,878,716,454</b>
Deposits from tenants	<b>850,327,839</b>	<b>850,327,839</b>	<b>769,500,627</b>	<b>662,857,037</b>
Dividends payable	<b>21,108,500</b>	<b>21,108,500</b>	<b>17,955,099</b>	<b>17,955,099</b>
Accrued employee benefits***	<b>14,352,506</b>	<b>14,352,506</b>	<b>15,018,168</b>	<b>15,018,168</b>
	<b>₱7,840,414,805</b>	<b>₱7,840,414,805</b>	<b>₱6,698,372,427</b>	<b>₱6,974,011,958</b>

\* Excludes cash on hand of ₱21,642,622 in 2013 and ₱27,725,464 in 2012.

\*\* Excluding customers' deposits, output VAT, deferred output VAT and withholding taxes.

\*\*\* Excluding accrued retirement benefits of ₱17,781,884 in 2013 and ₱22,169,104 in 2012.

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

#### Financial Assets at FVPL

The fair value of financial assets at FVPL is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid prices.

#### Cash and Cash Equivalents, Receivables other than Installment

#### Contracts Receivable, and Accounts Payable and Other Current Liabilities and Dividends Payable

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

#### Installment Contracts Receivable

The fair value of installment contract receivables approximates the carrying value as the interest rates they carry approximate the interest rate on comparable instruments in the market.



#### *Refundable Deposits and Deposits from Tenants*

The fair values of deposits from tenants were based on the present value of estimated future cash flows using interest rates that approximate the interest rates prevailing at the reporting date.

#### *Bank Loans*

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

#### *Fair Value Hierarchy*

The Group's financial instruments that are carried at fair value are financial assets at FVPL and AFS financial assets. As of September 30, 2013 and December 31, 2012, the fair values of financial assets at FVPL and AFS financial assets are determined and disclosed using Level 1 inputs, which are quoted prices in active markets for identical assets.

#### Financial Risk Management Objectives and Policies

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

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

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

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

#### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table sets out the cash flows, by maturity, of the Group's financial instruments that are exposed to interest rate risk as of September 30, 2013:

	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years	Total
Asset:							
Cash and cash equivalents	₱ 1,913,610,912	₱ –	₱ –	₱ –	₱ –	₱ –	₱ 1,913,610,912
Liabilities:							
Bank Loans	302,490,477	583,495,238	583,333,333	791,666,667	1,433,333,333	1,487,500,000	5,181,819,047
Interest rate	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%

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

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



The following table represents the impact on the Group's income before income tax and equity brought about by a reasonably possible change in interest rates, with all other variables held constant as of September 30, 2013 until its next financial reporting date:

Change in Interest Rate	Effect on Income before Income Tax
Increase by 1.90%	P 98,454,562
Decrease by 1.90%	(P 98,454,562)

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

#### *Foreign Exchange Risk*

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group's foreign exchange exposure arises from holding foreign currency denominated cash and cash equivalents and purchases of some materials used in the construction of the Projects billed in foreign currencies. In order to balance this exposure, the Group maintains foreign currency denominated accounts in a reputable commercial bank. The Group does not enter into derivatives to hedge the exposure.

The Group has cash and cash equivalents denominated in US\$ and HK\$. However, the Group's management has assessed that the effect of the reasonable possible change in the foreign exchange rate in HK\$ is insignificant to the consolidated financial statements.

#### *Equity Price Risk*

Price risk is the risk that the fair values of equity securities will fluctuate because of changes in the level of indices and the value of individual stocks. The Group is exposed to equity security price risk because of its investments, which are classified in the consolidated statements of financial position as financial assets at FVPL and AFS financial assets. The Group's management has assessed that the effect of the reasonably possible change in the fair value of its financial assets at FVPL and AFS financial assets are insignificant to the consolidated financial statements.

#### *Credit Risk*

Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group has no significant concentrations on credit risk. Sales of residential condominium units that are on installment basis are supported by post-dated checks from buyers. Titles to properties sold are not released unless full payment is received. In the case of leasing operations, tenants are subject to credit evaluation and are required to put up security deposits and pay advance rentals, if necessary.

The table below shows the maximum exposure to credit risk for each component of the financial assets in the statement of financial position:

	September 30, 2013	December 31, 2012
Financial assets at FVPL	P 29,076,965	P 32,275,696
Loans and receivables:		
Cash and cash equivalents *	1,891,968,291	1,566,727,845
Receivables:		
Installment contracts receivable	1,270,403,207	397,091,493
Rent	206,312,678	95,230,392
Related parties	96,212,407	20,512,634
Advances to officers and employees	1,686,488	2,008,535
Interest	618,152	1,138,118
Others	66,366,471	63,669,495
Refundable deposits	31,499,058	42,955,708
	3,565,066,753	2,244,400,991
AFS financial assets	502,022,842	502,022,842

September 30, 2013 December 31, 2012

**P4,096,166,559 P 2,778,699,529**

\* Excludes cash on hand of P21,642,622 in 2013 and P27,725,464 in 2012.

The following table provides information regarding the credit risk exposure of the Group by classifying its financial assets according to the credit ratings of debtors as of September 30, 2013:

	2013				
	Neither Past Due nor Impaired				
	Non-Investment	Non-Investment		Past Due and	
	Grade:	Grade:		Impaired	Total
	Satisfactory	Unsatisfactory			
	₱	₱		₱	₱
Financial assets at FVPL	29,076,965	—		—	29,076,965
Loans and receivables:					
Cash and cash equivalents*	1,891,968,291	—		—	1,891,968,291
Receivables:		—		—	
Installment contracts					
receivable	1,270,403,207	—		—	1,270,403,207
Rent	206,312,678	—		—	206,312,678
Related parties	96,212,407	—		—	96,212,407
Advances to officers and					
employees	1,686,488	—		—	1,686,488
Interest	618,152	—		—	618,152
Others	66,366,471	—		7,074,077	73,440,548
Refundable deposits	31,499,058	—		—	31,499,058
	3,565,066,753	—		7,074,077	3,572,140,829
AFS financial assets	502,022,842	—		—	502,022,842
	₱4,096,166,559	₱—	₱	7,074,077	₱4,103,240,636

\* Excludes cash on hand of P21,642,622

The credit quality of financial assets was determined as follows:

Cash and cash equivalents, financial assets at FVPL and AFS financial assets – based on the nature of the counterparty and the Group’s internal rating system.

Receivables – satisfactory pertains to receivables from existing and active tenants, customers, contractors, suppliers, related parties, counter parties, officers and employees while unsatisfactory pertains to receivables from tenants, customers, contractors, suppliers, related parties and counter parties that have already ceased their respective operations and officers and employees that are no longer employed by the Group.

Financial instruments classified under “neither past due nor impaired” include high grade credit quality instruments because there was few or no history of default on the agreed terms of the contract. “Past due and impaired” pertains to those financial instruments that are long outstanding and has been provided with allowance for impairment loss.

#### Liquidity Risk

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



The table below summarizes the maturity profile of the Group's financial assets compared with the contractual undiscounted payments of financial liabilities in order to provide a complete view of the Group's liquidity as of September 30, 2013:

	2013				Total
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	
<b>Financial Assets</b>					
Financial assets at FVPL	P 29,076,965	P-	P-	P-	P 29,076,965
Loans and receivables:					
Cash and cash equivalents*	1,891,968,291	-	-	-	1,891,968,291
Receivables:					
Installment contracts receivable	1,270,403,207	-	-	-	1,270,403,207
Rent	206,312,678	-	-	-	206,312,678
Related parties	96,212,407	-	-	-	96,212,407
Advances to officers and employees	1,686,488	-	-	-	1,686,488
Interest	618,152	-	-	-	618,152
Others	66,366,471	-	-	-	66,366,471
Refundable deposits	-	31,499,058	-	-	31,499,058
	3,533,567,694	31,499,058	-	-	3,565,066,753
AFS financial assets	502,022,842	-	-	-	502,022,842
	P4,064,667,501	P 31,499,058	P-	P-	P4,096,166,559
<b>Other Financial Liabilities</b>					
Accounts payable and other current liabilities**	P1,772,806,913	P-	P-	P-	P1,772,806,913
Bank loans	302,490,477	1,166,828,571	2,225,000,000	1,487,500,000	5,181,819,047
Deposits from tenants	551,484,457	298,843,382	-	-	850,327,839
Dividends payable	21,108,500	-	-	-	21,108,500
Accrued employees benefits***	14,352,506	-	-	-	14,352,506
	P2,662,242,852	P1,465,671,954	P2,225,000,000	P1,487,500,000	P7,840,414,805

\* Excludes cash on hand of P21,642,622

\*\* Excluding customers' deposits, output VAT, deferred output VAT and withholding taxes.

\*\*\* Excluding accrued retirement benefits of P17,781,884