SHANG
PROPERTIES®

ANNUAL REPORT 2012

CONTENTS

Our Vision

Shang Properties is committed to be the leading developer and manager of prime properties in the Philippines.

Our Mission

- Leading through product innovation
- Delighting with excellent service
- Fostering fair treatment and mutual respect
- Empowering people to attain their full potential
- Upholding good corporate citizenship

Our Core Values

SERVICE	We endeavor to consistently exceed customer expectations.
HONEST	We are committed to building principled relationships by being truthful and transparent in all our dealings.
ASIAN	We practice a tradition of diligence and discipline honed throughout the years.
NOBILITY	We champion the ideals of integrity and dignity by having the utmost pride in our work.
GLOBAL	We continue to leverage off the strengths of our international affiliates.

The Philippines continued on its path of sustained economic growth in 2012 and Shang Properties is strategically positioned to take advantage of this momentum and upbeat consumer interest.

Construction of the twin tower 64-storey One Shangri-La Place reached the 34th floor of the North Tower and the 35th floor of the South Tower at the end of 2012. With 1,304 residential units, 111,957 square meters of net saleable area, and located atop the six-level Shangri-La Plaza East Wing mall expansion, the project continues to be well received by the market. Since its launch in 2010 and up to the end of 2012, it achieved sales of 858 units, equivalent to 74,199 square meters or 66% of the total net saleable area. The project is expected to top off by the third quarter of 2013 and construction completion is targeted for the second half of 2014.

Shangri-La at the Fort, our 62-storey luxury hotel and residential development at the Bonifacio Global City, is progressing well and has achieved 15% superstructure completion at the end of 2012. It is slated to top off early 2014, with construction completion targeted for early 2015.

The conducive economic outlook brings with it challenges as well as opportunities, and we remain steadfast in our commitment to achieve a positive growth for Shang Properties.

In May 2012, we launched Shang Salcedo Place, a 67-storey residential development in Salcedo Village, Makati City with 773 units and 45,512 square meters of net saleable area. Excavation has been completed and work on the substructure has commenced. As of year end, sales of 106 units or 14% of the total number of units have been realized, equivalent to 5,456 square meters or 12% of the net saleable area.

In the office leasing segment, The Enterprise Center started 2012 with a low occupancy rate of 85% due to the loss of a major tenant equivalent to seven floors or 8,981 square meters. Despite strong competition and having one of the higher rental rates in the market, The Enterprise Center was able to secure new leasing, ending the year with an occupancy rate of 92.5%.

Shangri-La Plaza, our retail arm, completed its East Wing expansion and soft opened in March 2013, offering an additional 40,000 square meters of gross floor area and 161 shops and food and beverage outlets.

Since the mall opened over 20 years ago, it has established itself as the shopping and lifestyle venue of choice. Shang Properties has earmarked almost Php2 billion to renovate the main mall, carpark building, and the infrastructure within the estate. This renovation will ensure that Shangri-La Plaza remains competitive and poised to be bigger, better, and stronger as it enters its third decade.

Plans are underway to develop our 10,825 square meter property in Malugay (Makati). Construction of this residential and commercial project will start in the latter half of 2013.

The Company's gross revenue increased 51 percent to Php5.4 billion from Php3.6 billion in 2011, mainly due to the increase in revenue from condominium sales of One Shangri-La Place and higher rental income from mall tenants which increased by Php59 million. As a result, profit attributable to shareholders also significantly increased by 56 percent, from Php1.06 billion in 2011 to Php1.6 billion in 2012. These figures resulted in higher earnings per share of Php0.34 in 2012 from Php0.22 the previous year, and also enabled Shang Properties to declare cash dividends of Php390 million, up from the Php350 million it declared in 2011.

From the balance sheet, net asset value per share increased 6.6 percent to Php4.24 from Php3.99.

The conducive economic outlook brings with it challenges as well as opportunities, and we remain steadfast in our commitment to achieve a positive growth for Shang Properties.

I would like to thank our Board of Directors, our management team, and all the officers and staff for their contributions in making 2012 a stellar year. I would also like to thank our shareholders, partners and valued customers for their continued support of the Company.

EDWARD KUOK
CHAIRMAN

ONE SHANGRI-LA PLACE

Shang Properties' largest project to date, the 64-storey One Shangri-La Place sits atop the Shangri-La Plaza East Wing expansion and is being constructed at a cost of Php11 billion.

It offers 1,304 residential units and a gross floor area of 151,296 square meters. The North Tower, which was launched in March 2010, has sold 97% of its 664 units. The South Tower, launched in October 2011, has already sold 35% of its 640 units.

As of the end of 2012, the project achieved 42% construction completion and cumulative sales amounting to Php7.9 billion.

Target completion is in the second half of 2014.

SHANG SALCEDO PLACE

Shang Properties' second residential project in Makati, the 67-story Shang Salcedo Place is located in Salcedo Village, where business, commercial, and medical establishments are easily accessible. With the cost of construction estimated at Php7.9 billion, residents of Shang Salcedo Place will enjoy world-class luxury amenities such as adult-and kids-sized swimming pools, gym and exercise rooms, a children's play area and an outdoor podium garden area.

As of December 2012, 14% or 106 out of 773 units were sold, equivalent to over Php700 million in sales revenue.

Completion is targeted for the second half of 2015.

SHANGRI-LA AT THE FORT

With 62 storeys comprising 574 hotel guestrooms, 97 hotel residences and 96 exclusive Horizon Homes, the building is destined to become a landmark building in the fast-developing Bonifacio Global City in Taguig.

Located along Fifth Avenue and 30th Street, the hotel will have 138,769 square meters of gross floor area, 37,522 square meters for the residential segment, and 101,247 for the hotel and retail segments.

Construction cost is estimated at almost Php18 billion and expected completion is in early 2015.

Despite the heightened competition, The Enterprise Center ended 2012 with an occupancy rate of 92.5%.

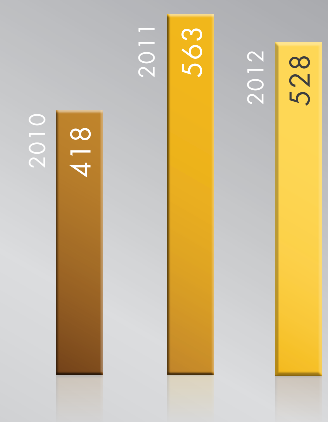
THE ENTERPRISE CENTER

Located at the heart of the Makati Central Business District, The Enterprise Center brings together the strengths of Shang Properties, CB Richard Ellis, and A. Soriano Corporation. Its 139,200 square meters of office space is home to some of the country's top corporations.

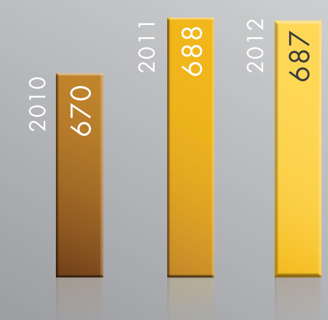
Net income of The Enterprise Center slid slightly to Php528 million in 2012 from Php563 million the previous year due to the low occupancy experienced during the beginning of 2012. However, despite the heightened competition from current office buildings and the entry of new developments, The Enterprise Center was able to secure new leases and ended 2012 with an occupancy rate of 92.5%.

Looking forward and in anticipation of a more dynamic economic environment, The Enterprise Center will undergo renovations to increase its' value as a prime office location and ensure that it maintains its status as a Premium Grade A building.

TEC NET INCOME
PHP MILLIONS



TEC GROSS RENTAL INCOME
PHP MILLIONS



SHANGRI-LA PLAZA

Shangri-La Plaza continues to bring endless pleasures to generations of loyal mall guests and retail partners. Its superior merchandise mix, relaxing ambiance, innovative marketing initiatives, and excellent quality service are the hallmarks of the Shangri-La Plaza brand. Thus, through the years, the mall has successfully sustained its upscale positioning, making it the preferred lifestyle destination of the discriminating upscale consumer.

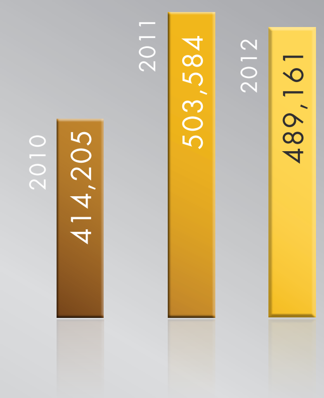
The construction of the new East Wing was substantially completed in 2012 and Shangri-La Plaza continued to post positive results despite the impact of the construction on mall operations. Gross revenue increased to Php1.126 billion from last year's Php1.102 billion, while total year-end occupancy stood at 99%, which clearly demonstrates mall guest and retail partner confidence in Shangri-La Plaza.

PERSPECTIVE OF
SHANGRI-LA PLAZA
EAST WING

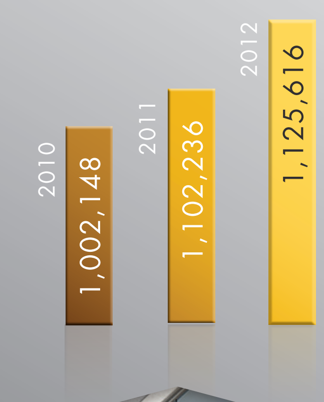
Shangri-La Plaza will emerge with three physical facilities – the Main Wing, the East Wing, and the retail component of the North Wing Carpark – all under one Shangri-La Plaza umbrella brand. The opening of the East Wing further enhances the signature Shang lifestyle through an expanded, seamless and more pleasurable experience.

Shangri-La Plaza will emerge with three physical facilities – the Main Wing, the East Wing, and the retail component of the North Wing Carpark – all under one Shangri-La Plaza umbrella brand.

SLPC NET INCOME
PHP MILLIONS



SLPC REVENUE
PHP MILLIONS



RENDERING OF
EAST WING FACADE

EDWARD KUOK KHOON LOONG is the Chairman of the Company and also Vice Chairman of Kerry Holdings Limited. He has been with the Kuok Group since 1978. He has a Master's Degree in Economics from the University of Wales in the United Kingdom.

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 the President of Co Ban Kiat Hardware, Inc., Ace Hardware, Philippines, and Coby's Marketing Corp. He is the Vice Chairman of the Federation of Filipino-Chinese Chamber of Commerce and a Director of the Philippine Hardware Association.

ANTONIO O. COJUANGCO is the Chairman of Ballet Philippines, CAP Life Insurance Corporation, Cinemalaya Foundation, Mantrade Development Corporation, Nabasan Subic Development Corporation, Radio Veritas, Tanghalang Pilipino, Air Asia Phil. Inc. and Directories Philippines Corporation. He is the President and Director of Calatagan Golf Club Inc. and Canlubang Golf and Country Club.

CYNTHIA ROXAS DEL CASTILLO is a Partner at Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles and has been with the firm for over 30 years. She holds an Ll.B from Ateneo, graduated Valedictorian in 1976 and placed 11th in the 1976 Bar Examinations. She currently serves as Corporate Secretary and Director of several Philippine corporations.

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

ALEXANDRA RAMOS – PADILLA is the General Manager of Crossings Department Store, Corporate Secretary and Director of Alakor Securities Corporation and Director of Music One Corporation. She has an MBA from the Kellogg Graduate School of Management.

BENJAMIN I. RAMOS is the President of Powerbooks since 2009 and is the Special Assistant to the Vice President at National Book Store. He has an MBA from the Stanford Graduate School of Business.

HO SHUT KAN is an Executive Director of Kerry Properties (H.K.) Limited, the principal Hong Kong property company of the Group. He is a Non-Executive Director of Eagle Asset Management (CP) Limited and the Manager of Champion Real Estate Investment Trust, which is listed in Hong Kong.

WILKIE LEE is a Project Director of Kerry Properties Ltd. He obtained his Bachelor's Degree in Civil Engineering from the University of Saskatchewan, Canada and a Masters Degree in Business Administration from the University of Notre Dame, USA and the London Business School.

DANILA REGINA I. FOJAS is the Executive Vice President and General Manager of Shangri-La Plaza Corporation. She is also a Director of KSA Realty Corporation and The Enterprise Center Condominium Corporation. She is the first female to graduate with honors at the Asian Institute of Management. She completed her Masters in Business Management with Distinction in 1978 and participated in the one-year advanced top management course in economics and business development at the University of Asia and the Pacific in 1993.

VICENTE P. FORMOSO is the Chief Finance Officer of the Company. He is also the President of The Shang Grand Tower Condominium Corporation, The Enterprise Center Condominium Corporation, and the St. Francis Shangri-La Place Condominium Corporation. He is a Director of Shangri-La Plaza Corporation and KSA Realty Corporation, and Treasurer of Shangri-La Hotels and Resorts Philippines. He holds an MBA from the Asian Institute of Management.

KINSUN ANDREW NG is the Group Financial Controller. He also serves as Director on the various boards of Shang Properties affiliates and subsidiaries. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants in the U.K. He graduated from the Hong Kong Shue Yan University with a Degree in Accounting.

FEDERICO G. NOEL, JR. is the General Counsel of the Company. He is also the Corporate Secretary and Legal Counsel for the other Kuok Group companies in the Philippines including the Shangri-La Plaza Corporation and Shangri-La Hotels and Resorts Philippines. He graduated from the Ateneo Law School in 1991 with a Juris Doctor Degree.

WILFRED WOO is the Executive Assistant to the Chairman of the Board. He is a member of the Institute of Chartered Accountants of British Columbia as well as a member of the Canadian Institute of Chartered Accountants since 1985. He graduated in 1982 from the University of British Columbia in Vancouver, Canada with a Bachelor's Degree in Commerce, majoring in Accounting and Management Information Systems.

Shang Properties, Inc. and its Board of Directors have always recognized and effected the globally accepted three (3) basic principles of corporate governance: fairness, transparency, and accountability to all its stakeholders. Shang Properties adopted its Corporate Governance Manual and submitted this to the Securities and Exchange Commission in 2002.

The following sections demonstrate the Company's compliance with these principles as detailed in the Manual during the financial year ending December 31, 2012.

THE BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic directions and financial performance. It sets and provides the role modeling for the Company's values and standards ensuring further that its obligations to the Company's shareholders are understood and met. To this end, it assumes responsibility for strategy formulation, corporate governance, and performance monitoring. The management is delegated the authority and responsibility for the administration of the Company within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Executive Committee, the Audit Committee and the Nomination Committee. Further details of these committees are set out in this annual report.

The number of meetings held and the attendance record of the Board members at these meetings for the last three (3) years are as follows:

	2013*	2012	2011
NUMBER OF BOARD MEETINGS	1	5	5
ATTENDANCE			
EXECUTIVE	100%	91%	100%
INDEPENDENT NON-EXECUTIVE	38%	80%	97%
AVERAGE	67%	85%	98%

*Meetings held in the year to date

Board minutes kept by the Corporate Secretary, are sent to the Directors for records, and are open for inspection.

BOARD COMPOSITION

The Board is currently composed of six (6) Executive Directors and nine (9) Non-Executive Directors of which three (3) are Independent Directors.

The Executive Directors are Messrs. Edward Kuok Khoon Loong, Wilfred Woo, Vicente P. Formoso, Federico G. Noel Jr., Kinsun Andrew Ng and Ms. Danila Regina I. Fojas. The Non-executive Directors are Alfredo C. Ramos, Alexandra S. Ramos-Padilla, Antonio O. Cojuangco, Benjamin I. Ramos, Cynthia Roxas del Castillo, George L. Go, Ho Shut Kan, Johnny O. Cobankiat, and Wilkie Lee. Mssrs. Cobankiat, Cojuangco and Go were elected Independent Directors. The biographies of the Directors are set out on page 10 and 11 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

DIVISION OF RESPONSIBILITIES

The Board has appointed a Chairman who has executive responsibilities and who provides leadership in establishing policies and business directions. The Chairman ensures that the Board works effectively, discharges its responsibilities, and discusses all key and appropriate issues in a timely manner.

The Executive Directors are tasked with the day-to-day running of the Company and are responsible for the different aspects of Shang Properties' businesses.

Non-Executive Directors bring strong independent judgment, knowledge and experience to the Board's deliberations. Apart from their appointments, the Non-Executive Directors do not have any form of service contract with the Company or any of its subsidiaries.

The Independent Directors take an active role in Board meetings, participate in Board Committees, contribute to the development of strategies and policies, and take the lead when potential conflicts of interest arise.

DIRECTORS' RE-ELECTION AND REMOVAL

The Directors of the Company are elected during the annual general meeting and hold office for one (1) year and until their successors are elected and deemed qualified.

ACCESS TO INFORMATION

All Directors are continually updated with legal and regulatory developments, regularly receive comprehensive information about business activities, financial highlights and operations review of the Company's business and market changes, and developments so that they are up-to-date and are well informed during Board meetings and to facilitate in discharging their responsibilities. The Board members are provided with Board papers and relevant materials prior to the intended meeting date, including business and financial reports covering the Group's principal business activities and are at liberty to contact management for enquiries and to obtain further information, when required. All Directors have unrestricted access to the advice and services of the Corporate Secretary, who ensures that they receive appropriate and timely information for their decision-making and that Board procedures are being followed. The Directors can obtain independent professional advice at the Company's expense.

DELEGATION BY THE BOARD

EXECUTIVE COMMITTEE

The Executive Committee consists of five (5) members of the Board headed by Edward Kuok Khoon Loong. It meets regularly and operates as a general management committee chaired by Mr. Wilfred Woo, an Executive Director and Executive Assistant to the Chairman. The Executive Committee meets to discuss the corporate and development strategies of the Company.

NOMINATION COMMITTEE

Pursuant to its Corporate Governance Manual, the Board created a Nomination Committee in August 2005 composed of three (3) Directors with at least one (1) Independent Director of the Company. The committee acts in an advisory capacity and makes recommendations to the Board. It promulgates the guidelines or criteria to govern the conduct of the nominations of the Directors. The same is properly disclosed in the Company's information statement or as well as any reports that are submitted to the Securities and Exchange Commission.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board is responsible for the preparation of the financial statements which adopt generally accepted accounting standards in the Philippines, ensuring appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made. The auditing and reporting on the financial statements are the primary responsibility of the external auditor whose "Auditor's Report" to the shareholders is included in this annual report.

Towards the end of the year, the Board reviews the financial projections of the group for the financial year ending 31 December on any given year. The Board has continued to adopt going concern basis in preparing the financial statements to ensure that any material uncertainties relating to events or conditions that may affect the Company's ability to manage effectively are met.

INTERNAL CONTROLS

The Board is responsible for maintaining 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, operational 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 material misstatement, fraud or losses.

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.

More details on the Company's internal control framework and the Board's process to evaluate its system of internal controls is set out in the section headed 'Internal Controls' on page 13 of this annual report.

AUDIT COMMITTEE

Pursuant to its Corporate Governance Manual, the Board created an Audit Committee in August 2002 currently composed of Independent Non-Executive Directors. Each member is required to have at least an adequate understanding of or competence on most of the Company's financial management systems and environment.

The major responsibilities of the Audit Committee are:

- To check that all financial reports comply with pertinent accounting standards, including regulatory requirements;
- To perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Company, and crisis management;
- To perform direct interface functions with the internal and external auditors;
- To elevate to international standards the accounting and auditing processes, practices and methodologies, and to develop, among others, a timetable within which the accounting system of the Company will be 100% compliant with International Accounting Standards.
- To develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Company through a step-by-step procedures and policies handbook that will be used by the entire organization.

The number of meetings held and the attendance record of the Committee members at these meetings for the last three (3) years are as follows:

	2013*	2012	2011
NUMBER OF COMMITTEE MEETINGS	1	5	5
ATTENDANCE	60%	80%	84%

*Meetings held in the year to date

AUDITOR'S REMUNERATION

During the financial year ended 31 December 2012, the fees paid / payable to the auditor in respect of the audit and non-audit services provided by the external auditor to the Company amounted to Php2.7 million broken down as follows:

AUDIT AND AUDIT RELATED FEES	Php1,963,400
TAX CONSULTING FEES	708,090
TOTAL	2,671,490

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.

Strategies and objectives of the Company as a whole are determined 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 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 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, 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 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.

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.

COMMUNICATION WITH SHAREHOLDERS

INVESTOR RELATIONS

COMMUNICATION CHANNELS

In order to develop and maintain a continuing investor's relationship program with its shareholders, the Company has established various channels of communication:

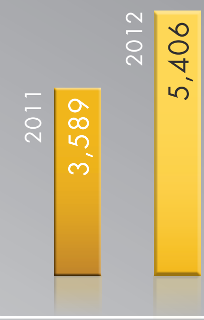
i) Shareholders can raise any comments on the performance and future directions of the Company with the Directors at the annual general meeting.
ii) The Company distributes the annual results to shareholders.
iii) The Company's website www.shangproperties.com contains important corporate information, biographical details of Directors and senior management, organizational structure, annual and interim reports, major historical developments with comprehensive and user-friendly information about the Company, as well as announcements and circulars issued by the Company in order to enable the Company's shareholders and the investor community to have timely access to updated information.
iv) Shareholders and members of the investor community are welcome to raise enquiries through the Legal Department, whose contract details are available in the Company's website www.shangproperties.com

GENERAL MEETINGS

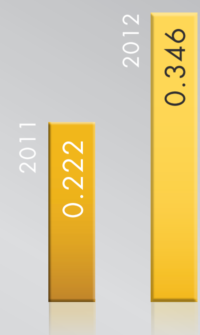
1. The general meeting provides a forum for the Board to communicate with the shareholders of the Company.
2. To facilitate enforcement of shareholders' rights, significant issues are dealt with under separate resolutions at general meetings.
3. The 2011 Annual Stockholders' Meeting of the Company was held on 19 June 2012 at the Garden Ballroom, Edsa Shangri-La, Ortigas Center, Mandaluyong City. The following resolutions were passed during the meeting:
   a. To adopt the audited financial statements and the report of the directors and the auditors for the financial year ended 31 December 2011.
   b. To ratify the acts of the Board of Directors and the Management since the annual meeting of stockholders held on 22 June 2011.
   c. To elect the members of the Board of Directors for the year 2012-2013, namely: Edward Kuok Khoon Loong, Alfredo C. Ramos, Wilfred Woo, Vicente P. Formoso, Federico G. Noel Jr., Kinsun Andrew Ng, Danila Regina I. Fojas, Alexandra S. Ramos-Padilla, Antonio O. Cojuangco, Benjamin I. Ramos, Cynthia Roxas del Castillo, George L. Go, Ho Shut Kan, Johnny O. Cobankiat, and Wilkie Lee.
   d. To re-appoint SGV as external auditors for the year 2012-2013.

		2012	2011	CHANGE
TURNOVER	(Php M)	5,406	3,589	50.6%
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	(Php M)	1,646	1,057	55.8%
SHAREHOLDERS' EQUITY	(Php M)	20,248	18,992	6.6%
EARNINGS PER SHARE	(Php)	0.346	0.222	55.8%
NET ASSET VALUE PER SHARE	(Php)	4.252	3.988	6.6%
SHARE PRICE AT YEAR END	(Php)	3.040	2.190	38.8%
PRICE EARNINGS RATIO AT YEAR END	(Ratio)	8.792	9.869	-10.9%
MARKET CAPITALISATION AT YEAR END	(Php M)	14,483	10,433	38.8%
DIVIDEND PER SHARE	(Php)	0.082	0.074	11.5%
DIVIDEND PAYOUT RATIO	(%)	23.7%	33.1%	-28.4%
DIVIDEND YIELD AT YEAR END	(%)	2.7%	3.4%	-19.7%
OPERATING MARGIN	(%)	47.6%	57.7%	-17.4%
RETURN ON EQUITY	(%)	8.1%	5.6%	46.1%
RETURN ON TOTAL FINANCING	(%)	7.1%	5.2%	37.9%
INTEREST COVER	(Ratio)	15.114	9.797	54.3%
GROSS INTEREST AS A % OF TOTAL BORROWINGS	(%)	3.8%	5.0%	-22.7%
CURRENT RATIO	(Ratio)	2.1	2.1	-0.9%
GEARING RATIO	(%)	14.3%	15.1%	-0.8%
TOTAL BANK LOANS TO EQUITY	(%)	22.2%	22.7%	-2.0%

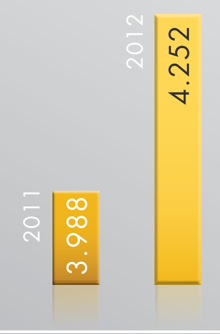
TURNOVER
PHP MILLIONS



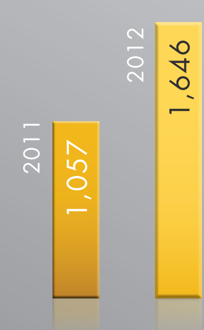
EARNINGS PER SHARE
PHP



NET ASSET VALUE PER SHARE
PHP



PROFIT ATTRIBUTABLE TO SHAREHOLDERS
PHP MILLIONS



STOCK BEHAVIOR: QUARTERLY SHARE PRICE

For the past three (3) years, the Company's share prices have traded as follows:

2012	HIGH (in Php)	LOW (in Php)
FIRST QUARTER	2.70	1.96
SECOND QUARTER	2.60	2.40
THIRD QUARTER	2.85	2.50
FOURTH QUARTER	3.10	2.69

2011	HIGH (in Php)	LOW (in Php)
FIRST QUARTER	2.13	1.10
SECOND QUARTER	2.00	1.70
THIRD QUARTER	2.00	1.80
FOURTH QUARTER	2.19	1.86

2010	HIGH (in Php)	LOW (in Php)
FIRST QUARTER	1.98	1.66
SECOND QUARTER	1.88	1.74
THIRD QUARTER	1.86	1.70
FOURTH QUARTER	2.12	1.73

DIVIDENDS

For 2012, the Board of Directors declared total cash dividends of P390 Million (2011: P350 Million)

SHAREHOLDER PROFILE

As of 31 December 2012, the Company had 5,643 stockholders. Common shares outstanding as of said date are 4,764,058,982. The Company's stockholders owning at least 5% or more are:

RANK	SHAREHOLDERS	NO. OF SHARES	PERCENTAGE %
1	TRAVEL AIM INVESTMENT B.V.*	1,648,869,372	34.61
2	PCD NOMINEE CORPORATION (FILIPINO)	1,010,553,600	21.21
3	NATIONAL BOOKSTORE, INC.	481,558,562	10.11

* *This company is a wholly owned subsidiary of Kerry Properties Limited*

	2012	2011	2010	2009
PROFIT AND LOSS ACCOUNT	Php '000	Php '000	Php '000	Php '000
TURNOVER	5,406,229	3,589,163	2,797,512	4,030,408
OPERATING PROFIT	2,574,363	2,070,157	1,865,515	2,137,487
INTEREST EXPENSE & BANK CHARGES	(172,279)	(213,337)	(261,892)	(313,261)
SHARE IN PROFIT (LOSS) OF ASSOCIATED COMPANIES	29,491	19,967	84,238	(2,724)
PROFIT BEFORE TAXATION	2,431,575	1,876,787	1,687,860	1,821,502
TAXATION	(536,193)	(514,785)	(402,266)	(319,475)
PROFIT AFTER TAXATION	1,895,382	1,362,002	1,285,594	1,502,027
MINORITY INTERESTS	(248,905)	(305,286)	(284,891)	(330,539)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	1,646,477	1,056,716	1,000,703	1,171,488
ASSETS AND LIABILITIES				
FIXED ASSETS	25,506,150	24,961,947	24,217,513	24,068,278
ASSOCIATED COMPANY	2,514,446	2,480,863	1,834,046	1,742,446
OTHER ASSETS	42,956	29,575	417,677	418,724
NET CURRENT ASSETS/(LIABILITIES)	4,552,766	4,061,180	4,897,750	4,171,218
	32,616,317	31,533,564	31,366,986	30,400,666
LONG TERM LIABILITIES	(9,438,422)	(9,743,185)	(9,915,737)	(9,683,477)
TOTAL EQUITY	23,177,895	21,790,379	21,451,248	20,717,189

	2008	2007 as restated	2006	2005	2004	2003
	Php '000	Php '000	Php '000	Php '000	Php '000	Php '000
	3,781,157	3,108,922	1,587,373	1,669,145	813,114	727,667
	1,905,348	1,220,915	474,036	569,277	497,335	326,867
	(298,744)	(54,125)	(50,542)	(58,284)	(35,679)	(35,247)
	4,672	127,695	62,370	77,740	43,638	51,236
	1,611,276	1,294,485	485,864	588,733	505,294	342,856
	(509,645)	(306,520)	152,753	206,760	(71,777)	(73,777)
	1,101,631	987,965	638,617	795,493	433,518	269,079
	(221,831)	(43,369)	(30,675)	(23,963)	(22,082)	(17,655)
	879,801	944,596	607,942	771,529	411,436	251,424
	24,500,533	16,677,884	14,757,807	14,813,853	15,381,806	11,050,843
	1,736,745	1,537,670	1,335,602	1,567,231	2,260,531	1,963,562
	403,873	36,804	9,073	7,458	7,855	25,606
	3,376,368	3,268,579	2,889,755	2,367,893	876,380	925,558
	30,017,519	21,520,937	18,992,237	18,756,435	18,526,572	13,965,569
	(10,353,073)	(4,760,440)	(4,294,957)	(4,499,252)	(4,884,561)	(3,630,175)
	19,664,446	16,760,498	14,697,280	14,257,183	13,642,011	10,335,394

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

February 27, 2013

To the Securities and Exchange Commission
SEC Building, EDSA, Greenhills
City of Mandaluyong, Metro Manila

The management of Shang Properties, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed under oath by the following:

EDWARD KUOK
Chairman of the Board

WILFRED WOO
Executive Assistant to the Chairman

KINSUN ANDREW NG
Vice-President — Group Financial Controller

For the year ended 31 December 2012

The Audit Committee of The Board has been established since 2002 and is composed of three (3) Non-executive Directors, one of whom shall be an independent director and another with audit experience. The chair of the Audit Committee should be an independent director.

The Audit Committee operates pursuant to the approved Audit Committee Charter. In general, the Audit Committee is responsible for assisting the Board in its responsibilities in monitoring the integrity of the Group's financial reporting process, the financial statements and reports of the Company, the compliance with legal and regulatory requirements, the external auditor's qualifications and independence, and the performance of the Group's internal audit function and external auditor.

In discharging its responsibilities, set out below is a summary of the work performed by the Audit Committee during the financial year ended 31 December 2012.

(i) The Audit Committee reviewed the draft annual and interim financial statements and the draft results announcements of the Company, focusing on main areas of judgment, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval.
(ii) The Audit Committee reviewed, in conjunction with the external auditor, the developments of accounting standards and assessed their potential impacts on the Group's financial statements.
(iii) The Audit Committee assessed the independence of the Company's external auditor, prior to formally engaging the external auditor to carry out the audit for the Company's financial statements for the year ended 31 December 2012.
(iv) Prior to the actual commencement of the audit, the Audit Committee discussed the proposed scope of work and approach of the audit with the external auditor. Upon completion of the audit, the Audit Committee reviewed the results of the external audit, and discussed with the external auditor on any significant findings and audit issues.
(v) The Audit Committee recommended to the Board regarding the appointment and remuneration of the external auditor.
(vi) The Audit Committee reviewed and approved the internal audit program, reviewed the internal audit reports and discussed any significant issues with the internal audit team and the Group's senior management.
(vii) The Audit Committee reviewed the independence of the internal audit function and the level of support and co-operation given by the Group's management to the internal audit team, as well as the resources of the internal audit team when undertaking its duties and responsibilities,
(viii) The Audit Committee reviewed the adequacy and effectiveness of the Group's systems of internal controls, through a review if the work undertaken by the Group's internal and external auditor, written representations by the senior management of each of the Group's business divisions and discussions with the Board.

During the financial year ended 31 December 2012, the Audit Committee met three times and the Audit Committee also conducted meetings with the Group's senior management, the external auditor and the internal audit team from time to time. Minutes of the Audit Committee Meetings are documented and circulated to the Board for information. The Audit Committee also reports and presents its findings and makes recommendations for consideration and discussion at Board meetings.

The Audit Committee reviewed the financial statements of the Group for the year ended 31 December 2012 prior to recommending them to the Board for approval.

Members of the Audit Committee:

MR. JOHNNY I. COBANKIAT
Chairman

MR. ALFREDO C. RAMOS
Member

MR. GEORGE L. GO
Member

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
Shang Properties, Inc.

We have audited the accompanying consolidated financial statements of Shang Properties, Inc. and its Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shang Properties, Inc. and its Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Arnel F. De Jesus
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 152-884-385
BIR Accreditation No. 08-001998-15-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 3669673, January 2, 2013, Makati City

February 27, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱1,600,953,309**	₱1,436,747,742
Financial assets at fair value through profit or loss (Note 6)	**32,275,696**	27,339,586
Receivables (Notes 7 and 29)	**1,357,200,705**	1,458,139,139
Properties held for sale (Note 8):		
Condominium units held for sale	**210,446,366**	7,200,000
Construction in progress	**3,139,517,781**	2,502,455,527
Memorial lots held for sale	**–**	26,140
Prepayments and other current assets (Note 9)	**659,300,300**	701,348,524
Total Current Assets	**6,999,694,157**	6,133,256,658
Noncurrent Assets		
Investment in associates (Note 10)	**2,514,445,602**	2,480,862,705
Investment properties (Note 11)	**25,153,790,359**	24,620,074,135
Real estate development projects (Note 12)	**281,040,423**	281,040,423
Available-for-sale financial assets (Notes 13 and 29)	**502,022,842**	500,912,842
Property and equipment (Note 14)	**71,318,828**	60,831,962
Refundable deposits	**42,955,708**	29,574,723
Deferred income tax assets (Note 27)	**403,249,591**	337,300,498
Total Noncurrent Assets	**28,968,823,353**	28,310,597,288
TOTAL ASSETS	**₱35,968,517,510**	₱34,443,853,946
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16 and 29)	**₱1,752,258,364**	₱2,120,799,620
Current portion of:		
Bank loans (Note 17)	**952,980,952**	371,428,571
Deposits from tenants (Note 18)	**551,484,457**	351,909,197
Deferred lease income (Note 18)	**35,996,990**	10,912,411
Dividends payable (Note 20)	**17,955,099**	15,737,613
Income tax payable	**41,524,854**	39,502,777
Total Current Liabilities	**3,352,200,716**	2,910,290,189
Noncurrent Liabilities		
Accrued employee benefits (Note 25)	**37,187,272**	32,197,481
Bank loans - net of current portion (Note 17)	**3,543,452,381**	3,931,990,473
Deferred income tax liabilities (Note 27)	**5,598,041,640**	5,464,290,598
Deposits from tenants - net of current portion (Note 18)	**218,016,170**	257,937,445
Deferred lease income - net of current portion (Note 18)	**41,724,184**	56,768,512
Total Noncurrent Liabilities	**9,438,421,647**	9,743,184,509
Total Liabilities	**12,790,622,363**	12,653,474,698

(forward)

	December 31	
	2012	2011
EQUITY		
Equity attributable to equity holders of the Parent Company:		
Capital stock (Note 19)	**₱4,764,058,982**	₱4,764,058,982
Additional paid-in capital (Note 1)	**834,439,607**	834,439,607
Treasury shares (Note 19)	**(6,850,064)**	(6,850,064)
Other components of equity (Note 13)	**1,885,237**	1,524,087
Retained earnings (Notes 19 and 20)	**14,654,957,228**	13,398,957,437
	20,248,490,990	18,992,130,049
Equity attributable to non-controlling interests (Note 1)	**2,929,404,157**	2,798,249,199
Total Equity	**23,177,895,147**	21,790,379,248
TOTAL LIABILITIES AND EQUITY	**₱35,968,517,510**	₱34,443,853,946

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
REVENUES			
Condominium sales (Note 7)	**₱2,698,045,454**	₱623,571,891	₱666,564,568
Rental (Notes 11, 29 and 31)	**1,848,769,513**	1,801,157,392	1,705,994,129
Cinema	**53,090,582**	52,709,249	48,134,540
	4,599,905,549	2,477,438,532	2,420,693,237
COSTS AND EXPENSES			
Cost of condominium sales (Note 22)	**2,224,877,909**	603,537,998	383,305,300
Staff costs (Notes 24, 25 and 29)	**221,058,539**	203,595,171	209,250,889
General and administrative (Note 23)	**201,934,178**	152,804,665	184,014,482
Taxes and licenses (Note 23)	**144,573,177**	135,397,702	132,848,543
Depreciation and amortization (Note 14)	**16,589,501**	15,264,728	12,412,327
Insurance	**11,780,537**	13,479,388	10,166,194
Unreimbursed share in common expenses (Note 26)	**11,051,866**	–	–
Provision for impairment loss on Goodwill (Note 15)	**–**	394,926,466	–
	2,831,865,707	1,519,006,118	931,997,735
OTHER INCOME (EXPENSES)			
Gain on fair value adjustment of investment properties (Note 11)	**400,126,054**	676,325,722	65,811,997
Interest (Notes 5, 7 and 21)	**284,513,613**	328,491,416	220,291,418
Foreign exchange gain (loss) - net (Note 5)	**(2,871,943)**	56,343	(688,906)
Others (Note 21)	**124,555,744**	106,851,255	91,404,724
	806,323,468	1,111,724,736	376,819,233
SHARE IN NET PROFITS OF ASSOCIATES (Note 10)	**29,490,674**	19,966,558	84,237,849
INTEREST EXPENSE AND BANK CHARGES (Notes 17, 18 and 21)	**172,279,478**	213,336,507	261,892,213
INCOME BEFORE INCOME TAX	**2,431,574,506**	1,876,787,201	1,687,860,371
PROVISION FOR INCOME TAX (Note 27)	**536,192,511**	514,784,787	402,266,078
NET INCOME	**1,895,381,995**	1,362,002,414	1,285,594,293
OTHER COMPREHENSIVE INCOME			
Change in fair value of available-for-sale financial assets, net of tax effect (Note 13)	**777,000**	2,485,000	(14,000)
Translation adjustments	**(415,850)**	(346,588)	(233,287)
	361,150	2,138,412	(247,287)
TOTAL COMPREHENSIVE INCOME	**₱1,895,743,145**	₱1,364,140,826	₱1,285,347,006
Net income attributable to:			
Equity holders of the Parent Company	**₱1,646,477,037**	₱1,056,716,268	₱1,000,702,887
Non-controlling interests	**248,904,958**	305,286,146	284,891,406
	₱1,895,381,995	₱1,362,002,414	₱1,285,594,293

	Years Ended December 31		
	2012	2011	2010
Total comprehensive income attributable to:			
Equity holders of the Parent Company	**₱1,646,838,187**	₱1,058,854,680	₱1,000,455,600
Non-controlling interests	**248,904,958**	305,286,146	284,891,406
	₱1,895,743,145	₱1,364,140,826	₱1,285,347,006
BASIC AND DILUTED EARNINGS PER SHARE (Note 28)			
Based on net income	**₱0.346**	₱0.222	₱0.210
Based on total comprehensive income	**₱0.346**	₱0.222	₱0.210

See accompanying Notes to Consolidated Financial Statements.

SHANG PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	Equity Holders of the Parent Company								
				Other Components of Equity					
	Capital Stock (Note 19)	Additional Paid-in Capital	Treasury Shares (Note 19)	Cumulative Changes in Fair Value of Available-for-Sale Financial Assets (Note 13)	Cumulative Translation Adjustments	Retained Earnings (Notes 10, 19 and 20)	Total	Non-controlling Interest (NCI)	Total
BALANCES AT DECEMBER 31, 2009	**₱4,764,058,982**	**₱1,210,073,869**	**(₱6,850,064)**	**(₱395,500)**	**₱28,462**	**₱12,120,207,311**	**₱18,087,123,060**	**₱2,630,065,931**	**₱20,717,188,991**
Total comprehensive income recognized for the year	–	–	–	(14,000)	(233,287)	1,000,702,887	1,000,455,600	284,891,406	1,285,347,006
Cash dividends (Note 20)	–	–	–	–	–	(428,572,830)	(428,572,830)	(122,715,003)	(551,287,833)
BALANCES AT DECEMBER 31, 2010	**4,764,058,982**	**1,210,073,869**	**(6,850,064)**	**(409,500)**	**(204,825)**	**12,692,337,368**	**18,659,005,830**	**2,792,242,334**	**21,451,248,164**
Total comprehensive income recognized for the year	–	–	–	2,485,000	(346,588)	1,056,716,268	1,058,854,680	305,286,146	1,364,140,826
Acquisition of NCI (Note 1)	–	(375,634,262)	–	–	–	–	(375,634,262)	(74,365,738)	(450,000,000)
Cash dividends (Note 20)	–	–	–	–	–	(350,096,199)	(350,096,199)	(224,913,543)	(575,009,742)
BALANCES AT DECEMBER 31, 2011	**4,764,058,982**	**834,439,607**	**(6,850,064)**	**2,075,500**	**(551,413)**	**13,398,957,437**	**18,992,130,049**	**2,798,249,199**	**21,790,379,248**
Total comprehensive income recognized for the year	–	–	–	777,000	(415,850)	1,646,477,037	1,646,838,187	248,904,958	1,895,743,145
Cash dividends (Note 20)	–	–	–	–	–	(390,477,246)	(390,477,246)	(117,750,000)	(508,227,246)
BALANCES AT DECEMBER 31, 2012	**₱4,764,058,982**	**₱834,439,607**	**(₱6,850,064)**	**₱2,852,500**	**(₱967,263)**	**₱14,654,957,228**	**₱20,248,490,990**	**₱2,929,404,157**	**₱23,177,895,147**

See accompanying Notes to Consolidated Financial Statements.

SHANG PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,431,574,506**	₱1,876,787,201	₱1,687,860,371
Adjustments for:			
Loss (gain) on:			
Fair value adjustment of investment properties (Note 11)	**(400,126,054)**	(676,325,722)	(65,811,997)
Reversal of liabilities (Notes 16 and 21)	**(8,836,466)**	(22,597,644)	(7,348,651)
Sale of property and equipment (Note 21)	**(163,535)**	(1,700,840)	(2,479,641)
Interest income (Notes 5, 7 and 21)	**(284,513,613)**	(328,491,416)	(220,291,418)
Interest expense (Notes 17, 18 and 21)	**164,926,575**	209,143,700	261,580,637
Dividend income (Note 21)	**(54,695,511)**	(23,341,370)	(432,781)
Share in net profits of associates (Note 10)	**(29,490,674)**	(19,966,558)	(84,237,849)
Depreciation and amortization (Note 14)	**16,589,501**	15,264,728	12,412,327
Adjustment in fair value of financial assets at FVPL (Notes 6 and 21)	**(4,936,110)**	287,530	(3,949,445)
Unrealized foreign exchange loss (gain) - net	**2,272,111**	(543,847)	688,906
Provision for impairment loss on Goodwill (Note 15)	**–**	394,926,466	–
Operating income before working capital changes	**1,832,600,730**	1,423,442,228	1,577,990,459
Decrease (increase) in:			
Receivables	**327,187,010**	(603,079,342)	1,178,566,100
Properties held for sale:			
Construction in progress	**(636,447,000)**	(1,040,891,033)	(560,192,666)
Condominium held for sale	**(203,246,366)**	–	–
Memorial lots held for sale	**26,140**	440,000	1,492,071
Prepayments and other current assets	**42,048,224**	(289,670,908)	(16,385,972)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(359,704,790)**	558,753,506	337,622,642
Accrued employee benefits	**4,989,791**	(3,754,126)	(14,524,452)
Deferred lease income	**10,852,673**	(20,877,021)	(9,712,979)
Net cash generated from operations	**1,018,306,412**	24,363,304	2,494,855,203
Income taxes paid	**(456,279,640)**	(375,801,969)	(387,803,554)
Interest received	**47,843,192**	119,331,662	158,771,968
Net cash provided by (used in) operating activities	**609,869,964**	(232,107,003)	2,265,823,617
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Refundable deposits	**(13,380,985)**	(6,824,055)	1,047,155
Investment in associates (Note 10)	**(4,092,223)**	(626,850,435)	(7,362,307)
Additions to:			
Investment properties (Note11)	**(133,590,170)**	(39,672,534)	(41,450,109)
Property and equipment (Note 14)	**(27,787,692)**	(44,442,389)	(23,130,381)
Dividends received (Note 21)	**54,695,511**	23,341,370	432,781
Proceeds from sale of:			
Property and equipment	**259,606**	–	3,551,425
Available-for-sale financial assets (Note 13)	**–**	350,000	–
Net cash used in investing activities	**(123,895,953)**	(694,098,043)	(66,911,436)

(forward)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid to:			
Stockholders	**(₱388,259,760)**	(₱351,671,339)	(₱424,183,402)
Non-controlling shareholders of subsidiaries	**(117,750,000)**	(224,913,543)	(122,715,003)
Payments of:			
Loan principal (Note 17)	**(806,985,711)**	(369,485,716)	(369,485,716)
Interest	**(164,423,225)**	(203,857,053)	(273,239,609)
Proceeds from loan availments (Note 17)	**1,000,000,000**	–	–
Increase (decrease) in deposits from tenants	**158,338,213**	(6,927,855)	83,979,658
Acquisition of non-controlling interest (Note 1)	**–**	(450,000,000)	–
Net cash used in financing activities	**(319,080,483)**	(1,606,855,506)	(1,105,644,072)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENT (Note 5)	**(2,687,961)**	197,259	(688,906)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**164,205,567**	(2,532,863,293)	1,092,579,203
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,436,747,742**	3,969,611,035	2,877,031,832
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱1,600,953,309**	₱1,436,747,742	₱3,969,611,035

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements**

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

The Parent Company and Subsidiaries' (collectively referred to as the Group) businesses include property investment and development, real estate management, leasing, mall and carpark operations.

Shang Properties Realty Corporation (SPRC, a wholly-owned subsidiary) is the developer of The Shang Grand Tower Project (TSGT), located in Makati City, The St. Francis Shangri-La Place Project (TSFSP) and the One Shangri-La Place Project (OSP), both located in Mandaluyong City (hereafter collectively referred to as the Projects).

The Parent Company's registered office address, which is also its principal place of business, is located at Level 5 Shangri-La Plaza Mall, EDSA corner Shaw Boulevard, Mandaluyong City.

Acquisition of Non-controlling Interest (NCI) of Shangri-La Plaza Corporation (SLPC)
On June 27, 2011, the Parent Company acquired the 21.28% NCI of SLPC for a total consideration of ₱450,000,000, making SLPC a wholly owned subsidiary. This transaction resulted to decrease in additional paid-in-capital (APIC) amounting to ₱375,634,262.

Incorporation of Silver Hero Investments Limited (SHIL)
On February 22, 2011, SHIL was incorporated in the British Virgin Islands (BVI) as a BVI Business Company. SHIL is a wholly owned subsidiary of the Parent Company through Gipsey, Ltd. (Gipsey), a subsidiary of the Parent Company.

Incorporation of Shang Property Developers, Inc. (SPDI)
SPDI (a wholly-owned subsidiary) was incorporated on December 17, 2010. SPDI is the developer of Shang Salcedo Place (SSP), located in Makati City.

Authorization for the Issuance of the Consolidated Financial Statements
The consolidated financial statements have been approved and authorized for issuance by the Board of Directors (the Board) on February 27.

2. **Summary of Significant Accounting and Financial Reporting Policies**

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, financial assets at 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 consolidated financial statements, which are prepared for submission to the SEC, have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

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:

- Philippine Accounting Standard (PAS) 24 (Revised), *Related Party Transactions*
  The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for government-related entities, whereby the general disclosure requirements of PAS 24 will not apply. Instead, alternative disclosures have been included, requiring:

  a. the name of the government and the nature of its relationship with the reporting entity;
  b. the nature and amount of individually significant transactions; and
  c. a qualitative or quantitative indication of the extent of other transactions that are collectively significant.

- 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 — *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (Amendment)
  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, *Financial Instruments: Disclosures – Transfers of Financial Assets* (Amendments)
  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 at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
Consolidated statements of financial position		
Accrued retirement benefit	₱29,891,034	₱347,091
Deferred tax asset	8,967,310	104,127
Other comprehensive income	(39,791,666)	(10,990,968)
Retained earnings	10,635,440	1,750,175

	2012
Consolidated statements of comprehensive income	
Net retirement cost	(₱1,668,130)
Income tax expense	(8,967,310)
Profit for the year:	
Attributable to owners of the Parent Company	(8,953,709)
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.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 of each year.

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 (see Note 29).

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:

	Effective Percentages of Ownership	
	2012	2011
Property Development:		
SPRC	**100.00%**	100.00%
SPDI	**100.00%**	100.00%
Leasing:		
SPI Parking Services, Inc. (SPSI)	**100.00%**	100.00%
SLPC	**100.00%**	100.00%
KSA Realty Corporation (KSA)	**52.90%**	52.90%
Real Estate:		
Ivory Post Properties, Inc. (IPPI)	**100.00%**	100.00%

	Effective Percentages of Ownership	
	2012	2011
KPPI Realty Corporation (KRC)	**100.00%**	100.00%
Martin B. Properties, Inc. (MBPI)	**100.00%**	100.00%
NCRI	**100.00%**	100.00%
Perfect Sites, Inc. (PSI)	**100.00%**	100.00%
Shang Fort Bonifacio Holdings, Inc. (SFBHI)	**100.00%**	100.00%
Shang Global City Holdings, Inc. (SGCHI)	**100.00%**	100.00%
Sky Leisure Properties, Inc. (SLPI)*	**50.00%**	50.00%
Ideal Sites and Properties, Inc. (ISPI)	**40.00%**	40.00%
Shang Global City Properties, Inc.**	**40.00%**	40.00%
Exchange Properties Resources Corporation	**35.00%**	35.00%
Property Management:		
KPPI Management Services Corporation (KMSC)	**100.00%**	100.00%
Shang Property Management Services, Inc. (SPMSI)	**100.00%**	100.00%
Hotel:		
Fort Bonifacio Shangri-la Hotel, Inc. (FBSHI)***	**40.00%**	40.00%
Others:		
Gipsey (BVI Company)	**100.00%**	100.00%
SHIL (BVI Company)****	**100.00%**	100.00%
EPHI Logistics Holdings, Inc. (ELHI)	**60.00%**	60.00%

**Owned through PSI.*
***Owned through SGCHI.*
****Owned through SFBHI.*
*****Owned through Gipsey.*

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

NCIs

NCIs represent the portion of consolidated profit or loss, consolidated comprehensive income or loss and consolidated net assets not held by the Parent Company and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, but separately from equity holders of the Parent Company.

Business Combinations

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall: (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize as goodwill any excess remaining after that reassessment.

For business combination achieved in stages, each exchange transaction is treated separately by the Parent Company. The cost of the transaction and the fair value information at the date of each exchange transaction are used to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of each individual investment with the Parent Company's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different at the date of each exchange transaction for the following reasons:

a. the acquiree's identifiable assets, liabilities and contingent liabilities are notionally restated to their fair values at the date of each exchange transaction to determine the amount of any goodwill associated with each transaction; and

b. the acquiree's identifiable assets, liabilities and contingent liabilities must then be recognized by the Parent Company at their fair values at the acquisition date.

Any resulting fair value adjustment to acquiree's identifiable assets, liabilities and contingent liabilities relating to previously held interests by the Parent Company is accounted for as a revaluation.

Goodwill

The acquirer shall recognize goodwill as of the acquisition date if the aggregate of: (a) the consideration transferred; (b) the amount of any non-controlling interest in the acquiree; and (c) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree exceeds the net acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset and is tested annually for impairment. Goodwill on acquisitions of associates is included in the investment in associates account and is tested annually for impairment as part of the overall balance. Gain or loss on a disposal of an entity includes the carrying amount of the goodwill relating to the entity sold.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisitions and are subject to an insignificant risk of changes in value.

Financial Instruments

Initial Recognition and Measurement

Financial instruments are recognized initially at fair value, adjusted for directly attributable transaction costs in the case of financial instruments not at FVPL. The Group recognizes a financial instrument in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Classification
Financial assets are classified as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets, and AFS financial assets as appropriate. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates the designation at each reporting date.

Financial Assets or Liabilities at FVPL
Financial instruments at FVPL include financial assets or financial liabilities held-for-trading and those designated upon initial recognition as financial assets or liabilities at FVPL.

Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments or financial guarantee contracts. Dividends, interests and gains or losses on held-for-trading financial instruments are recognized in the profit or loss.

Financial instruments may be designated at initial recognition as financial assets or liabilities at FVPL when any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on a different basis; (ii) the assets or liabilities are part of a group of financial instruments which are managed and their performances are evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

Financial instruments in this category are classified as current assets or current liabilities.

As of December 31, 2012 and 2011, the Group has investment in shares of stock with various publicly listed companies which was classified as held-for-trading financial asset. As of December 31, 2012 and 2011, the Group has no financial liabilities at FVPL.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition, and includes fees that are an integral part of the EIR and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized, impaired or amortized. Loans and receivables are classified as current assets if maturity is within twelve months from the reporting date and as noncurrent assets if maturity is after twelve months from the reporting date.

As of December 31, 2012 and 2011, the Group's loans and receivables consist of cash and cash equivalents and receivables.

HTM Financial Assets
HTM financial assets are non-derivative financial assets which carry fixed or determinable payments and fixed maturities, and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM financial assets are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the EIR method of any difference between the initially recognized amount and

the maturity amount, less allowance for impairment. The losses arising from impairment are recognized in the consolidated profit or loss. HTM financial assets are classified as current assets if maturity is within twelve months from the reporting date and as noncurrent assets if maturity is after twelve months from the reporting date.

As of December 31, 2012 and 2011, the Group has no HTM financial assets.

AFS Financial Assets
AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are carried at fair value in the consolidated statement of financial position. Changes in fair value of such assets are accounted for in other comprehensive income in the cumulative changes in fair value of AFS financial assets until the financial assets are derecognized or until they are determined to be impaired. When an AFS financial asset is derecognized or determined to be impaired, the cumulative gains or losses previously recorded in other comprehensive income is recognized in profit or loss.

Investments in equity instruments that do not have quoted market prices in an active market and whose fair values cannot be reliably measured are carried at their costs, less any impairment in value.

AFS financial assets are classified as current assets if maturity is within twelve months from the reporting date and as noncurrent assets if maturity is after twelve months from the reporting date.

As of December 31, 2012 and 2011, the Group's investments in proprietary club shares, and listed and unlisted shares of stock are classified as AFS financial assets.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading nor designated as financial liabilities at FVPL upon inception of the liability.

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are carried at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in profit or loss when the liabilities are derecognized or amortized. Other financial liabilities are classified as current liabilities if maturity is within twelve months from the reporting date and as noncurrent liabilities if maturity is after twelve months from the reporting date.

As of December 31, 2012 and 2011, the Group's other financial liabilities include accounts payable and other current liabilities (except for customers' deposits, reservation payables, output VAT, deferred output VAT and withholding taxes), bank loans, deposits from tenants and dividends payable.

Determination of Fair Value
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments and all other financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using arm's-length market transactions; reference to the current market value of another instrument, which is substantially the

same; and discounted cash flow analysis and other valuation models. If the fair value cannot be measured reliably, the financial instruments are measured at cost, being the fair value of the consideration paid, in case of an asset, and received, in case of a liability. All transaction costs directly attributable to the acquisition are also included in the cost of investment.

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

Offsetting
A financial asset and a financial liability are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreement, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or a group of financial assets is impaired.

a. *Financial Assets Carried at Amortized Cost*
   If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). The carrying amount of the asset is reduced by the impairment loss, which is recognized in consolidated profit or loss.

   The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant and collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Asset that is individually assessed for impairment and for which an impairment loss is recognized is not included in the collective assessment of impairment. The impairment assessment is performed at each reporting date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as customer type, payment history, age of the receivable and term.

   Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

b. *AFS Financial Assets*
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment), less any impairment loss previously recognized in the profit or loss, and its current fair value is transferred from equity to profit or loss. In case of equity securities classified as AFS financial assets, objective evidence would include a significant or prolonged decline in fair value of the financial assets below their costs or where other objective evidence of impairment exists.

Impairment losses on equity securities are not reversed through profit or loss. Increases in fair value, after impairment, are recognized in other comprehensive income.

c. *Financial Assets Carried at Cost*
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition

a. *Financial Assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

b. *Financial Liabilities*
A financial liability is derecognized when the obligation under the liability has been discharged, cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in consolidated profit or loss.

Properties Held for Sale

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

Condominium Units Held for Sale

Cost of condominium units held for sale represents accumulated costs on the unsold units of the completed Projects.

Memorial Lots Held for Sale

Cost of memorial lots held for sale primarily consists of acquisition cost and expenditures for the development of the real estate properties.

Construction in Progress

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

Prepayments and Other Current Assets

Creditable Withholding Tax (CWT)

CWT represents taxes withheld for goods and services paid. CWTs can be claimed as credit against the income tax liability.

Input VAT

Input VAT is recognized when the Group purchased goods or services. Input VAT can be claimed as credit against the Group's VAT liabilities.

Prepaid Expenses

Prepaid expenses include expenses already paid but not yet incurred and from which future economic benefits are expected to flow to the Group within its normal operating cycle or within twelve months from the reporting date. These are measured at cost less allowance for impairment losses, if any.

Investment Properties

Investment properties consist of land and buildings that are held for long-term rental yields or for capital appreciation or both, and that are not owner occupied by the companies in the Group.

Investment properties are measured initially at their costs, including related transaction costs. Transaction costs include transfer taxes, professional fees and other costs necessary to bring the investment properties to the condition necessary for them to be capable of being used.

After initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recorded in profit or loss in the year in which they arise. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of each of the Group's investment property is determined annually by independent valuers. An investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

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

Investment properties are derecognized when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal . Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss. Gain or loss on disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset at the date of disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

When the Group completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in profit or loss. If a land or building and building improvement classified as "Property and equipment" becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use. For transfer from investment property carried at fair value to property and equipment or construction in progress, the investment property's deemed cost shall be its fair value at the date of change in use.

<u>Real Estate Development Projects</u>
Real estate development projects undertaken by a subsidiary, for which developments are temporarily suspended, are carried at cost less impairment in value. Cost primarily consists of acquisition cost and expenditures for the development and construction of the real estate projects.

<u>Property and Equipment</u>
Property and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

The initial costs of property and equipment consist of their purchase prices and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repair and maintenance costs, are recognized in profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization commence once the assets are available for use and are provided on all property and equipment at rates calculated to write off the costs, less estimated residual values based on prices prevailing at the reporting date, of each asset evenly over its expected useful life as follows:

Category	Useful Lives in Years
Building and building improvements	45
Transportation equipment	2 to 5
Furniture, fixtures and other equipment	2 to 4

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

The assets' estimated useful lives (EUL), and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment. The assets' estimated residual values are reviewed periodically and adjusted if appropriate.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use, and no further depreciation is charged to profit or loss.

When an asset is retired, or otherwise disposed of, the cost and the accumulated depreciation or amortization, and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that the nonfinancial assets consists of investment in associates, real estate development projects, property and equipment and goodwill may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that the previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset or CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The following criteria are also applied in assessing impairment of specific assets:

Investment in Associates
After application of the equity method, the Group determines whether it is necessary to recognize impairment loss on the Group's investment in associates. The Group determines at each reporting date whether there is objective evidence that an investment is impaired. If that is the case, the Group calculates the amount of impairment as the difference between the fair value of the investee company and the carrying value of the investment. The difference is recognized in profit or loss.

Goodwill
Impairment testing for goodwill is performed annually and when circumstances indicate that its carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs to which goodwill has been allocated is less than its carrying amount, an impairment loss is recognized in profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

<u>Borrowing Costs</u>
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction, or production of a qualifying asset. All other borrowing costs are recognized as expense in consolidated profit or loss in the year in which they are incurred. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use.

<u>Provisions</u>
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. If the effect of the time value of money is material, provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provision due to passage of time is recognized as interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

<u>Equity</u>

Capital Stock and APIC
Capital stock is measured at par value for all shares issued. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "APIC" account. When shares are issued for a consideration other than cash, the proceeds are measured at the fair value of consideration received. In case the shares are issued to extinguish or settle a liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Shares
Treasury shares are recorded at cost and presented as deduction from equity. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value, upon retirement, is charged to APIC when the shares are issued.

Retained Earnings
Retained earnings include cumulative profits attributable to the Parent Company's stockholders and reduced by dividends. Retained earnings also include effect of changes in accounting policies as may be required by the standards' transitional provisions.

Dividend Distribution
Dividend distribution to the Parent Company's stockholders is recognized as a liability "Dividends payable" in the Group's consolidated financial statements on the date when the dividends are declared by the Board.

<u>Revenue and Expense Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at fair value of consideration received. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as the principal in all of its major revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Condominium Sales
For completed projects, condominium sales and the related cost are accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage of completion (POC) method is used to recognize revenue from condominium sales where the Group has material obligations under the sales contract to complete the condominium units after they are sold. Under this method, revenue and cost are recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of the physical proportion of the contract work, and by reference to the actual costs incurred to date over the total estimated project costs, net of related commission. Any excess collections received over the recognized receivables are recognized as "Customers' deposits" under "Accounts payable and other current liabilities" in the consolidated statement of financial position.

If the revenue recognition criteria under the full accrual or POC method are not met, the deposit method is applied until all the conditions for recognizing a sale are met. Until revenue from condominium sales is recognized, cash received from customers are also recognized as part of "Customers' deposits."

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

For income tax purposes, full recognition is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Rental
Rental revenues from the leasing of properties held under operating lease are recognized on a straight-line basis over the periods of the respective leases or on a certain percentage of gross revenue of the lessees, whichever is appropriate.

Interest Income
Interest income is recognized taking into account the effective yield on the assets. Interest income from the accretion of installment contracts receivable is recognized using the EIR method.

Dividend Income
Dividend income is recognized when the Group's right to receive the dividends is established.

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

Commission Expense
Commissions paid to sales and marketing agents on the sale of pre-completed units are deferred when recoveries are reasonably expected and are charged to expense in the period in which the related revenues are recognized as earned. Accordingly, when the POC method is used, commissions are likewise charged to expense in the period the related revenues are recognized.

Costs and Expenses
Cost of condominium units held for sale is recognized consistent with the revenue recognition method applied. Cost of condominium units held for sale before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Company's in-house technical staff.

The cost of condominium units held for sale recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

General and administrative expenses are recognized as incurred.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as the Lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rent income which is recognized in the consolidated statement of income. Contingent rents are recognized as revenue in the period in which they are earned.

Employee Benefits

Retirement Obligations
A defined benefit plan is a retirement plan that defines an amount of retirement benefit that an employee will receive on retirement. It is usually dependent on one or more factors such as age, years of service and compensation. The post-employment benefit paid to all employees in the Group qualifies as a post-employment defined benefit plan.

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of defined benefit obligations at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligations are calculated annually by an independent actuary using the projected unit credit method. The present value of defined benefit obligations is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that are denominated in the currency on which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement liability.

Cumulative unrecognized actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of defined benefit obligations at the beginning of the year are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in consolidated profit or loss, unless the changes to the retirement plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Termination Benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or to provide termination benefits as a result of an accepted offer made to encourage voluntary redundancy. Benefits falling due more than twelve months from the reporting date are discounted to their present values.

Foreign Currency-denominated Transactions and Translations

Transactions in foreign currencies are recorded using the applicable functional currency exchange rates at the dates of transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated using the applicable closing functional currency exchange rates at the reporting date. All foreign exchange gains and losses are recognized in profit or loss.

The functional and presentation currency of Gipsey and SHIL, foreign subsidiaries, is the HK$. All monetary and nonmonetary assets and liabilities are translated into Peso at the exchange rate prevailing at the reporting date, capital stock accounts and retained earnings accounts are translated at historical rates, and revenues and expenses at the average exchange rate for the year. The resulting translation adjustments are reflected as a separate component of other comprehensive income and taken to equity.

Income Tax

Current Income Tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred Income Tax
Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits, tax losses [net operating loss carryover (NOLCO)], minimum corporate income tax (MCIT), and excess MCIT over regular corporate income tax (RCIT) to the extent that it is probable that sufficient future taxable profits will be available against which all or part of the deductible temporary differences, carryforward benefits of unused tax credits, tax losses, MCIT and excess MCIT over RCIT can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss.

The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent that they are no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow all or part of the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income tax relates to the same entity and the same tax authority.

Earnings Per Share
Earnings per share is computed by dividing the net income attributable to equity holders of the Parent Company and total comprehensive income attributable to equity holders of the Parent Company by the weighted average number of shares outstanding during the year adjusted to give retroactive effect to any stock dividends declared during the year.

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Parent Company and total comprehensive income attributable to equity holders of the Parent Company for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is computed by dividing the adjusted net income attributable to equity holders of the Parent Company and adjusted total comprehensive income attributable to equity holders of the Parent Company for the year by the weighted average number of shares for the effects of all potential dilutive common shares.

Segment Reporting
An operating segment is a component of an entity:

a. that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
b. whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; and
c. for which discrete financial information is available.

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

Events after the Reporting Date
Any post year-end event that provides additional information about the Group's financial position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. Significant Accounting Assumptions, Judgments and Estimates

The preparation of the consolidated financial statements in accordance with PFRS requires management to make assumptions, judgments and estimates that affect the amounts reported in the consolidated financial statements based on evaluation of relevant facts and circumstances at the reporting date. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the consolidated financial statements as they become reasonably determinable.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements:

Determination of the Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Parent Company, management determined its functional currency to be the Peso. It is the currency that mainly influences the sale of goods and services and the costs of goods sold and services rendered.

Classification of Financial Instruments
The Group classifies a financial instrument, or its component, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of financial asset, financial liability and equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

Financial assets are classified as financial assets at FVPL, loans and receivables, HTM financial assets, and AFS financial assets. Financial liabilities, on the other hand, are classified as financial liabilities at FVPL and other financial liabilities. The Group determines the classification at initial recognition and re-evaluates the classification at every reporting date.

The carrying values of financial instruments as of December 31, 2012 and 2011 are disclosed in Note 32.

Distinction between Properties Held for Sale and Investment Properties
The Group determines whether a property is to be classified as a property held for sale or an investment property through the following:

- Properties held for sale comprise properties that are held for sale in the ordinary course of business. These are condominium units that the Group develops and intends to sell before or on completion of construction and memorial lots that the Group buys and resells.

- Investment properties comprise land and buildings which are not occupied substantially for use by, or in the operations of, nor for sale in the ordinary course of business of the Group, but are held primarily to earn rental income and capital appreciation.

The carrying values of properties held for sale and investment properties amounted to ₱3,349,964,147 and ₱25,153,790,359, respectively, as of December 31, 2012 and ₱2,509,681,667 and ₱24,620,074,135, respectively, as of December 31, 2011 (see Notes 8 and 11).

Distinction between Investment Properties, and Property and Equipment
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Property and equipment generate cash flows that are attributable not only to them but also to the other assets used in the operations of the Group.

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

The carrying values of investment properties, and property and equipment amounted to ₱25,153,790,359 and ₱71,318,828, respectively, as of December 31, 2012 and ₱24,620,074,135 and ₱60,831,962, respectively, as of December 31, 2011 (see Notes 11 and 14).

Impairment of AFS Equity Financial Assets
The Group treats AFS equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is "significant" and "prolonged" requires judgment. The Group generally treats a decline of 20% or more of the original cost as "significant" and a period greater than six months as "prolonged". In addition, the Group evaluates other factors including normal volatility in share prices for quoted securities, future cash flows and discount factors for unquoted securities.

The carrying values of AFS equity financial assets amounted to ₱502,022,842 and ₱500,912,842 as of December 31, 2012 and 2011, respectively (see Note 13). Based on management's assessment, there has been no significant or prolonged decline in the fair value of AFS equity financial assets, thus, no impairment loss was recognized in 2012, 2011 and 2010.

Revenue Recognition
When a contract of sale of a property upon completion of construction is judged to be a construction contract, revenue is recognized using the POC method as construction progresses. The POC is based on proportion of contract costs incurred to date and the estimated costs to complete and by reference to the estimated completion of a physical proportion of the contract work.

Condominium sales recognized amounted to ₱2,698,045,454, ₱623,571,891 and ₱666,564,568 in 2012, 2011 and 2010, respectively.

Contingencies
The Group is currently involved in various legal proceedings. The estimates of the probable costs for the resolution of these claims have been developed in consultation with the outside legal counsel handling the defense in these matters and are based upon analyses of potential reports. Based on management's assessment, these proceedings will not have a material effect on the Group's financial position and performance (see Note 30).

Classification of Leases as Operating Lease
The Group has entered into commercial property leases on its investment property portfolio where it has determined that it retains the significant risks and rewards related to the ownership of the said investment properties (see Notes 29 and 31).

The carrying values of investment properties as of December 31, 2012 and 2011 amounted to ₱25,153,790,359 and ₱24,620,074,135, respectively (see Note 11).

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are as follows:

Valuation of Financial Instruments
Financial instruments carried at fair values require the use of accounting estimates. While significant components of fair value measurement are determined using verifiable objective evidence, it would differ if the Group utilizes a different valuation methodology. Any changes in the fair values of financial instruments will affect profit or loss and equity.

The fair values of financial instruments on initial recognition are normally the transaction prices. These prices are indicative of actual and regularly occurring market transactions on an arm's length basis.

The fair values of the Group's financial assets at FVPL and AFS financial assets traded in active markets are based on quoted market prices at the reporting date. The quoted market prices used for financial assets held are the current bid prices. The Group's installment contracts receivable's and deposits from tenants' fair values are based on the present values of estimated future cash flows discounted using prevailing discount rates at the reporting date. The fair values of the other financial instruments are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group at the reporting date for similar financial instruments.

The carrying amounts and fair values of the Group's financial instruments as of December 31, 2012 and 2011 are disclosed in Note 32.

Estimation of Allowance for Impairment of Receivables
The Group maintains an allowance for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

Doubtful accounts provided in 2012, 2011 and 2010 amounted to ₱11,426,470, ₱885,532 and ₱1,109,566, respectively. Allowance for impairment of receivables amounted to ₱7,074,077 and ₱5,727,607 as of December 31, 2012 and 2011, respectively. The carrying values of the Group's receivables amounted to ₱1,357,200,705 and ₱1,458,139,139 as of December 31, 2012 and 2011, respectively (see Note 7).

Estimation of POC of the Projects
The Group's revenue and cost recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from condominium sales, recognized based on the POC, are measured principally on the basis of the actual costs incurred to date over the total estimated project costs and by reference to the estimated completion of a physical proportion of the contract work. The total estimated project costs is estimated by the Group's technical staff. At each reporting date, these estimates are reviewed and revised to reflect the current conditions, when necessary.

As of December 31, 2012 and 2011, TSFSP is 100.00% and 99.90% complete, respectively. OSP is 42.00% and 9.00% complete as of December 31, 2012 and 2011, respectively. SSP is 3.86% complete as of December 31, 2012 (see Note 8).

Estimation of NRV
Properties held for sale are carried at the lower of cost and NRV.

NRVs for completed condominium units are assessed at its estimated selling price of condominium units less estimated costs necessary to make the sale.

NRV in respect of condominium units under construction is assessed at estimated selling price of condominium units less estimated costs to complete the construction, less estimated time value of money to the date of completion and less estimated costs necessary to make the sale.

As of December 31, 2012 and 2011, properties held for sale amounted to ₱3,349,964,147 and ₱2,509,681,667, respectively (see Note 8).

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

a. current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

b. recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

c. discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows.

The significant method and assumptions used by the valuers in estimating fair values of investment properties are set out in Note 11. As of December 31, 2012 and 2011, the fair values, which are also the carrying values of investment properties, amounted to ₱25,153,790,359 and ₱24,620,074,135, respectively (see Note 11).

Estimation of Useful Lives of Property and Equipment
The Group estimates the EUL of property and equipment based on the internal technical evaluation and experience with similar assets. EUL of property and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of property and equipment. As of December 31, 2012 and 2011, the carrying values of property and equipment amounted to ₱71,318,828 and ₱60,831,962, respectively (see Note 14).

Impairment of Nonfinancial Assets, Including Goodwill
The Group assesses whether there are any indicators of impairment for all nonfinancial assets at every reporting date. Nonfinancial assets with indefinite life such as goodwill are tested for impairment annually and at other times when impairment indicators exist. Other nonfinancial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

If any such indication exists or in case of nonfinancial assets with indefinite life, the recoverable amount of the asset is estimated. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amount is estimated for an individual asset or, if it is not possible, for the CGU to which the asset belongs. The details of the Group's nonfinancial assets are disclosed in Notes 9, 10, 12, 14 and 15.

In 2011, the Group recognized impairment loss amounting to ₱394,926,466 on its goodwill (see Note 15). No impairment loss was recognized in 2010. As of December 31, 2012 and 2011, based on management's assessment, there are no indications of impairment for the rest of the Group's nonfinancial assets composed of prepayments and other current assets, investment in associates, and property and equipment.

Estimation of Retirement Benefit Costs
The determination of the obligation and retirement benefits is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25, which include among others, the discount rate, expected rate of return on plan assets and future salary increase rate. As of December 31, 2012 and 2011, accrued retirement benefits included as part of "Accrued employee benefits" amounted to ₱22,173,504 and ₱16,429,200, respectively (see Note 25).

Realizability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group expects to generate sufficient future taxable profits to allow all of its recognized deferred income tax assets to be utilized. Deferred income tax assets recognized as of December 31, 2012 and 2011 amounted to ₱403,249,591 and ₱337,300,498, respectively (see Note 27). The unrecognized deferred income tax assets of the Group are disclosed in Note 27.

4. Segment Information

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

The Group has operations only in the Philippines.

The Group derives revenues from two main segments as follows:

Property Development
This business segment pertains to the sale of condominium units 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 (see Note 29).

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

Revenues come 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 year ended December 31, 2012 are as follows:

	Property Development	Leasing	Others	Total
Revenue/sales	**₱2,698,045,454**	**₱1,848,769,513**	**₱–**	**₱4,546,814,967**
Cost of sales	**(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**

(*forward*)

	Property Development	Leasing	Others	Total
Gain on fair value adjustment of investment properties	**₱–**	**₱386,646,054**	**₱13,480,000**	**₱400,126,054**
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)**
Other income	**22,887,316**	**45,783,293**	**55,885,135**	**124,555,744**
Depreciation and amortization	**(918,816)**	**(15,609,567)**	**(61,118)**	**(16,589,501)**
Insurance	**(128,640)**	**(11,648,150)**	**(3,747)**	**(11,780,537)**
Unreimbursed share in common expenses	**–**	**(11,051,866)**	**–**	**(11,051,866)**
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**
Interest expense and bank charges	**(742,409)**	**(171,534,589)**	**(2,480)**	**(172,279,478)**
Share in net profits 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)**
Provision for income tax	**(130,698,039)**	**(399,401,708)**	**(6,092,764)**	**(536,192,511)**
Net income for the year	**₱465,475,074**	**₱1,346,179,955**	**₱83,726,966**	**₱1,895,381,995**
Segment assets	**₱6,074,183,653**	**₱22,969,117,307**	**₱4,410,770,948**	**₱33,454,071,908**
Associate company	**–**	**2,033,948,404**	**480,497,198**	**2,514,445,602**
Total assets	**₱6,074,183,653**	**₱25,003,065,711**	**₱4,891,268,146**	**₱35,968,517,510**
Segment liabilities	**₱1,148,575,596**	**₱11,328,675,963**	**₱313,370,804**	**₱12,790,622,363**
Capital expenditures for the year	**₱2,939,643**	**₱24,632,349**	**₱215,700**	**₱27,787,692**

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended December 31, 2011 are as follows:

	Property Development	Leasing	Others	Total
Revenue/sales	₱623,571,891	₱1,801,157,392	₱–	₱2,424,729,283
Cost of sales	(603,537,998)	–	–	(603,537,998)
Gross profit	20,033,893	1,801,157,392	–	1,821,191,285
Cinema	–	52,709,249	–	52,709,249
Gain on fair value adjustment of investment properties	48,800,000	535,907,502	91,618,220	676,325,722
Staff costs	(36,837,616)	(158,246,761)	(8,510,794)	(203,595,171)
General and administrative expenses	(50,016,860)	(97,232,373)	(5,555,432)	(152,804,665)
Taxes and licenses	(13,493,805)	(121,702,431)	(201,466)	(135,397,702)
Other income	9,131,702	60,574,356	37,145,197	106,851,255
Provision for impairment of goodwill	–	(394,926,466)	–	(394,926,466)
Depreciation and amortization	(560,084)	(14,539,927)	(164,717)	(15,264,728)
Insurance	(101,431)	(13,375,776)	(2,181)	(13,479,388)
Segment results	(23,044,201)	1,650,324,765	114,328,827	1,741,609,391
Interest income	249,644,183	40,239,736	38,607,497	328,491,416
Interest expense and bank charges	(245,964)	(209,453,143)	(3,637,400)	(213,336,507)
Share in net profits of associates	–	–	19,966,558	19,966,558
Foreign exchange gain (loss) - net	(219,931)	276,274	–	56,343
Provision for income tax	(255,249,752)	(265,370,677)	5,835,642	(514,784,787)
Net income (loss) for the year	(₱29,115,665)	₱1,216,016,955	₱175,101,124	₱1,362,002,414
Segment assets	₱6,007,540,686	₱22,579,992,219	₱3,375,458,336	₱31,962,991,241
Associate company	–	1,418,973,010	1,061,889,695	2,480,862,705
Total assets	₱6,007,540,686	₱23,998,965,229	₱4,437,348,031	₱34,443,853,946
Segment liabilities	₱4,826,502,010	₱4,405,758,443	₱3,421,214,245	₱12,653,474,698
Capital expenditures for the year	₱2,107,660	₱42,151,390	₱183,339	₱44,442,389

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended December 31, 2010 are as follows:

	Property Development	Leasing	Others	Total
Revenue/sales	₱666,564,568	₱1,705,994,129	₱–	₱2,372,558,697
Cost of sales	(383,305,300)	–	–	(383,305,300)
Gross profit	283,259,268	1,705,994,129	–	1,989,253,397
Cinema	–	48,134,540	–	48,134,540
Gain (loss) on fair value adjustment of investment properties	35,243,552	(32,070,007)	62,638,452	65,811,997
Staff costs	(40,132,661)	(161,766,218)	(7,352,010)	(209,250,889)
General and administrative expenses	(69,743,287)	(115,818,343)	1,547,148	(184,014,482)
Taxes and licenses	(19,046,980)	(113,568,131)	(233,432)	(132,848,543)
Other income	12,309,059	66,869,351	12,226,314	91,404,724
Depreciation and amortization	(266,330)	(12,001,652)	(144,345)	(12,412,327)
Insurance	(56,170)	(10,108,774)	(1,250)	(10,166,194)
Segment results	201,566,451	1,375,664,895	68,680,877	1,645,912,223
Interest income	138,446,007	81,587,993	257,418	220,291,418
Interest expense and bank charges	–	(261,892,213)	–	(261,892,213)
Share in net profits of associates	–	–	84,237,849	84,237,849
Foreign exchange gain (loss) - net	(539,524)	(172,113)	22,731	(688,906)
Provision for income tax	(125,033,257)	(274,339,715)	(2,893,106)	(402,266,078)
Net income for the year	₱214,439,677	₱920,848,847	₱150,305,769	₱1,285,594,293
Segment assets	₱3,492,111,198	₱24,014,721,519	₱4,421,373,417	₱31,928,206,134
Associate company	–	1,834,045,712	–	1,834,045,712
Total assets	₱3,492,111,198	₱25,848,767,231	₱4,421,373,417	₱33,762,251,846
Segment liabilities	₱952,953,094	₱8,338,812,830	₱3,019,237,758	₱12,311,003,682
Capital expenditures for the year	₱1,230,691	₱21,899,690	₱–	₱23,130,381

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

5. Cash and Cash Equivalents

	2012	2011
Cash on hand and in banks	**₱108,519,076**	₱91,634,690
Cash equivalents	**1,492,434,233**	1,345,113,052
	₱1,600,953,309	₱1,436,747,742

Cash in banks earns interest at the prevailing bank deposit rates. The effective annual interest rates on cash equivalents, which have an average maturity of 33 days, range from 3.40% to 3.53% in 2012 and 2.40% to 3.65% in 2011. Total interest income from cash in banks and cash equivalents in 2012, 2011 and 2010 amounted to ₱53,284,973, ₱135,644,243 and ₱153,995,094, respectively (see Note 21).

As of December 31, the Group's cash and cash equivalents include United States Dollar (US$) deposits with local banks as follows:

	2012	2011
US$ value	**$979,495**	$325,741
Peso equivalent	**₱40,208,263**	₱14,280,502

The closing exchange rate used as at December 31, 2012 and 2011 was ₱41.05 and ₱43.84, respectively, to US$1.00.

As of December 31, the Group's cash and cash equivalents include HK$ deposits with local banks as follows:

	2012	2011
HK$ value	**$840,553**	$306,663
Peso equivalent	**₱4,467,034**	₱1,732,952

The closing exchange rates used as at December 31, 2012 and 2011 were ₱5.31 and ₱5.65, respectively, to HK$1.00.

Unrealized foreign exchange gain charged to profit or loss in 2011 amounted to ₱197,259. Unrealized foreign exchange losses charged to consolidated profit or loss in 2012 and 2010 amounted to ₱2,687,961 and ₱688,906, respectively.

6. Financial Assets at FVPL

	2012	2011
Beginning balance	**₱27,339,586**	₱27,627,116
Fair value adjustment (Note 21)	**4,936,110**	(287,530)
Ending balance	**₱32,275,696**	₱27,339,586

The movement in the accumulated fair value adjustments follows:

	2012	2011	2010
Beginning balance	**₱3,512,209**	₱3,799,739	(₱149,706)
Fair value adjustment (Note 21)	**4,936,110**	(287,530)	3,949,445
Ending balance	**₱8,448,319**	₱3,512,209	₱3,799,739

As of December 31, 2012 and 2011, financial assets at FVPL represent shares of stock of various publicly listed companies.

7. Receivables

	2012	2011
Trade:		
Installment contracts receivable	**₱397,091,493**	₱86,361,410
Rent (see Note 29)	**95,230,392**	151,818,332
Nontrade:		
Advances to:		
Contractors and suppliers	**777,550,038**	1,102,723,576
Officers and employees (Note 29)	**2,008,535**	1,483,525
Deposit for future projects (see Note 8)	**–**	10,000,000
Related parties (Note 29)	**20,512,634**	56,298,502
(forward)		

	2012	2011
Interest	**₱1,138,118**	₱1,095,099
Others	**70,743,572**	54,086,302
	1,364,274,782	1,463,866,746
Less allowance for impairment loss	**7,074,077**	5,727,607
	₱1,357,200,705	₱1,458,139,139

Installment contracts receivable represent receivables from sale of condominium units. The average term of the underlying sales contract ranges from one to five years. These receivables are noninterest-bearing. Installment contracts receivable are discounted using prevailing interest rates at the dates of transactions. The differences between the present values and face values of the receivables are amortized using the EIR method over the term of the respective contracts. Interest income from accretion of installment contracts receivable amounted to ₱226,248,576, ₱180,734,248 and ₱60,964,785 in 2012, 2011 and 2010, respectively (see Note 21).

Rental receivables are noninterest-bearing and pertain to rental fees charged to tenants and to the Group's affiliates for the office, commercial, and carpark spaces. The normal credit terms range from 30 to 60 days.

Advances to contractors and suppliers represent downpayments to them and are liquidated through progress billings.

Other receivables are noninterest-bearing and are composed of banner, non-tenant related and other receivables.

The terms, balances and transactions with related party which were and were not eliminated during consolidation are disclosed in Note 29.

The allowance for impairment loss pertains to other nontrade receivables and its movements are as follows:

	2012	2011
Beginning balance	**₱5,727,607**	₱5,256,041
Bad debts (Note 23)	**11,426,470**	885,532
Write-off	**(10,080,000)**	(413,966)
Ending balance	**₱7,074,077**	₱5,727,607

The following table shows the expected cash flows from installment contracts receivable as of December 31:

	2012	2011
Expected cash flows in:		
2012	**₱–**	₱976,027,156
2013	**1,529,622,655**	909,618,204
2014	**2,363,007,733**	1,844,808,677
2015	**773,081,994**	–
2016	**69,887,530**	–
	4,735,599,912	3,730,454,037
Less unamortized discount and unearned income	**4,338,508,419**	4,332,495,736
	₱397,091,493	(₱602,041,699)

As of December 31, 2012 and 2011, excess collections from condominium unit buyers were included in the "Customers' deposits" account amounting to ₱78,892,407 and ₱688,403,109, respectively (see Note 16).

The movements in the unamortized discount and unearned income on installment contracts receivable are as follows:

	2012	2011
Beginning balance	**₱4,332,495,736**	₱2,059,050,050
Additions	**2,930,306,713**	3,077,751,825
Recognized sales and interest income	**(2,924,294,030)**	(804,306,139)
Ending balance	**₱4,338,508,419**	₱4,332,495,736

8. **Properties Held for Sale**

	2012	2011
Condominium units held for sale	**₱210,446,366**	₱7,200,000
Construction in progress	**3,139,517,781**	2,502,455,527
Memorial lots held for sale	**–**	26,140
	₱3,349,964,147	₱2,509,681,667

A summary of the movement in inventory is set out below:

	2012	2011
Beginning balance	**₱2,509,681,667**	₱1,468,583,914
Construction or development costs incurred	**2,919,026,529**	1,030,075,751
Recognized cost of sales	**(2,224,877,909)**	(603,537,998)
Land costs transferred from deposits for future projects y	**146,160,000**	153,750,000
Land acquired during the year	**–**	461,250,000
Other adjustments or reclassifications	**(26,140)**	(440,000)
Ending balance	**₱3,349,964,147**	₱2,509,681,667

Construction in progress consists of:

	2012	2011
Construction cost	**₱1,952,065,083**	₱1,566,675,445
Land (see Note 7)	**774,075,000**	627,915,000
Professional and consultancy fees	**287,466,722**	227,181,276
Project management	**125,910,976**	80,683,806
	₱3,139,517,781	₱2,502,455,527

In 2011, SPDI purchased from APCC and API common areas and 123 units of Asian Plaza and two parcels of land for a consideration amounting to ₱615,000,000, exclusive of VAT and recognized the said purchase price in "Land" under "Construction in progress."

On May 27, 2011, SPDI entered into MOAs with Sigma Investment Corporation (Sigma) and GF&P Corporation (GF&P), corporations duly organized and existing under the virtue of the laws of the Philippines, for the purchase of Sigma's and GF&P's Development Rights pertaining to 6,642 square meters and 5,538 square meters, respectively, unused gross floor areas (GFA) in the parcels of land located beside Asian Plaza for total considerations of ₱74,486,240, inclusive of VAT, and ₱66,456,000, exclusive of VAT, respectively. As of December 31, 2011, the Deeds of Absolute Sale were not yet executed pending the approval of the Makati City Government of the sale of the Development Rights. As of December 31, 2011, advances to Sigma under "Deposit for future projects" account amounted to ₱10,000,000. In 2012, the Makati City Government approved the said sale. The Group capitalized the amount to construction in progress in SSP Project.

The Group has no unusual purchase commitments as of December 31, 2012 and 2011.

9. Prepayments and Other Current Assets

	2012	2011
CWT	**₱329,662,089**	₱283,331,813
Prepaid commission	**177,729,055**	178,434,794
Input VAT	**87,966,577**	88,892,233
Cash in escrow	**55,066,771**	144,929,600
Prepaid expenses	**7,770,115**	5,238,071
Others	**1,105,693**	522,013
	₱659,300,300	₱701,348,524

Cash in escrow in 2012 pertains to the cash deposited in a local bank in compliance with the Escrow Agreement (EA) between SPDI, a local bank and the Housing and Land Use Regulatory Board (HLURB). The cash in escrow shall be released upon written notice of the HLURB to an escrow agent upon submission by SPDI of certain requirements. Pursuant to the EA, the HLURB issued a temporary license to sell to SPDI.

Cash in escrow in 2011 pertains to the cash deposited in a local bank in compliance with the MOAs entered into by SPDI with Sigma and GF&P (see Note 7). The cash in escrow shall be released to Sigma and GF&P upon SPDI's receipt of the written notice from the Makati City Government approving the sale to SPDI of the Development Rights, annotation in the titles to the parcels of land of the resulting decrease in the total GFA, and the execution of the Deeds of Absolute Sale of the said transfers; or to SPDI in the event that the City Government of Makati does not approve the sale. In 2012, the Makati City Government approved the sale said sale. The Group capitalized the amount to construction cost in SSP Project (see Note 8).

10. Investment in Associates

	2012	2011
Acquisition costs:		
Beginning balance	**₱2,354,757,120**	₱1,727,906,685
Additions to investment	**4,092,223**	626,850,435
Ending balance	**2,358,849,343**	2,354,757,120
Accumulated share in net profits:		
Beginning balance	**126,105,585**	106,139,027
Share in net profits for the year	**29,490,674**	19,966,558
Ending balance	**155,596,259**	126,105,585
	₱2,514,445,602	₱2,480,862,705

The Parent Company is restricted from declaring dividends out of the accumulated share in net profits until declared by the associates.

The summarized financial information of the Company's associates is as follows:

			2012	
Associates	**Total Assets**	**Total Liabilities**	**Total Revenues**	**Net Income (Loss)**
FSBHI	**₱3,966,683,470**	**₱1,520,086,600**	**₱26,018,862**	**₱12,773,552**
SGCHI	**2,708,920,150**	**57,702,975**	**5,356,487**	**(2,139,085)**
SLPI	**753,925,951**	**118,152,347**	**53,606,035**	**32,444,709**
Others	**335,982,512**	**410,356,600**	**3,817,316**	**(549,183)**
	₱7,765,512,083	**₱2,106,298,522**	**₱88,798,700**	**₱42,529,993**

			2011	
Associates	Total Assets	Total Liabilities	Total Revenues	Net Income (Loss)
FSBHI	₱2,301,261,850	₱1,679,924,870	₱11,939,716	₱5,312,978
SGCHI	3,601,753,286	3,413,101,829	5,356,487	4,376,052
SLPI	729,984,491	251,208,997	53,601,832	32,441,950
Others	337,436,758	371,174,728	624,300	(3,312,215)
	₱6,970,436,385	₱5,715,410,424	₱71,522,335	₱38,818,765

11. **Investment Properties**

		2012	
	Land	**Buildings**	**Total**
Beginning balances	**₱12,214,089,432**	**₱12,405,984,703**	**₱24,620,074,135**
Additions	**–**	**133,590,170**	**133,590,170**
Gain on fair value adjustment	**392,736,307**	**7,389,747**	**400,126,054**
Ending balances	**₱12,606,825,739**	**₱12,546,964,620**	**₱25,153,790,359**

		2011	
	Land	Buildings	Total
Beginning balances	₱11,530,880,061	₱12,373,195,818	₱23,904,075,879
Additions	–	39,672,534	39,672,534
Gain (loss) on fair value adjustment	683,209,371	(6,883,649)	676,325,722
Ending balances	₱12,214,089,432	₱12,405,984,703	₱24,620,074,135

The Group's investment properties were revalued at December 31, 2012 and 2011 as follows:

Investment Properties	Method
Land	Revalued by Royal Asia Appraisal Corporation (RAAC) using the market data approach wherein the values of the parcels of land are based on sales and listings of comparable properties registered within the vicinity of the investment properties.
Buildings	Revalued by RAAC using the market data approach wherein the values of the buildings are based on sales and listings of comparable properties registered within the vicinity of the investment properties.

As of December 31, 2012 and 2011, investment properties of KSA in TEC amounting to ₱8,127,804,235 and ₱8,061,507,313, respectively, are mortgaged to secure the loan from a local bank (see Note 17).

Rental revenue from investment properties in 2012, 2011 and 2010 amounted to ₱1,848,769,513, ₱1,801,157,392 and ₱1,705,994,129, respectively. Direct operating expenses incurred for the leasing operations amounted to ₱438,265,938, ₱405,097,268 and ₱413,263,118 in 2012, 2011 and 2010, respectively.

12. Real Estate Development Projects

Real estate development projects for which developments are temporarily suspended pertain mainly to various projects of KRC that have undergone initial development activities. Costs incurred for these projects include initial construction costs, architect and professional fees, project management costs and borrowing costs.

KRC has an existing joint venture agreements with certain owners of parcels of land for the development of a medium-rise residential and commercial condominium building or a hotel resort building. Under the terms of each individual agreement with the respective landowners, KRC will provide the funds for the construction of the projects as well as the technical expertise in the management of the same, while the landowners will contribute the land. The agreements further provide for the sharing of the saleable areas of the respective projects based on the sharing ratios agreed upon by the parties, with each party taking ownership and possession of its allocated areas with full power and discretion on the disposition of the same, subject to the pertinent conditions contained in the agreements.

The development of these real estate projects was temporarily suspended. The recovery of the costs of the aforementioned real estate projects is dependent upon the ability of the Parent Company and KRC to raise the necessary funds to finance the development and the eventual realization of income therefrom.

In 2012 and 2011, the Group did not recognize any impairment loss on the real estate development projects. The recoverable amount of the real estate development projects was estimated based on the value in use computation using cash flow projections approved by management covering a four-year period. The discount rate used to compute the recoverable amount is 11.48%.

As of December 31, 2012 and 2011, the carrying value of real estate development projects amounted to ₱281,040,423.

13. AFS Financial Assets

	2012	2011
At fair value - quoted	**₱9,121,515**	₱9,121,515
At cost - unquoted (Note 29)	**488,826,327**	488,826,327
	497,947,842	497,947,842
Cumulative changes in fair value	**4,075,000**	2,965,000
	₱502,022,842	₱500,912,842

The quoted equity securities consist of investment in various golf club shares and stocks which are traded at the PSE. These are carried at fair values with cumulative changes in fair values presented as part of "Other components of equity." The fair values of these shares are based on the quoted market prices as of the reporting date.

Unquoted equity securities include unlisted shares of stock which the Group will continue to carry as part of its investments. The fair values of these investments cannot be reliably determined, thus, they are carried at cost less allowance for impairment, if any.

Management intends to dispose the quoted and unquoted equity shares through sale, as the need arises.

The following table presents the movements in cost of AFS financial assets:

	2012			2011		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Beginning balances	**₱9,121,515**	**₱488,826,327**	**₱497,947,842**	₱9,471,515	₱488,826,327	₱498,297,842
Cumulative changes in fair value	**4,075,000**	**–**	**4,075,000**	2,965,000	–	2,965,000
Disposal	**–**	**–**	**–**	(350,000)	–	(350,000)
Ending balances	**₱13,196,515**	**₱488,826,327**	**₱502,022,842**	₱12,086,515	₱488,826,327	₱500,912,842

The movement in the cumulative changes in fair value of AFS financial assets is as follows:

	2012	2011	2010
Beginning balance	**₱2,965,000**	(₱585,000)	(₱565,000)
Increase (decrease) in fair value	**1,110,000**	3,550,000	(20,000)
Ending balance	**₱4,075,000**	₱2,965,000	(₱585,000)

14. Property and Equipment

	2012			
	Building and Building Improvements	**Transportation Equipment**	**Furniture, Fixtures and Other Equipment**	**Total**
Costs				
Beginning balances	**₱76,201,571**	**₱31,317,633**	**₱66,611,730**	**₱174,130,934**
Additions	**8,042,642**	**4,052,406**	**15,692,644**	**27,787,692**
Disposals	**(2,796,332)**	**(720,909)**	**(2,232,503)**	**(5,749,744)**
Ending balances	**81,447,881**	**34,649,130**	**80,071,871**	**196,168,882**
Accumulated Depreciation and Amortization				
Beginning balances	**45,854,891**	**12,441,564**	**55,002,517**	**113,298,972**
Depreciation and amortization	**2,181,121**	**6,321,289**	**8,702,345**	**17,204,755**
Disposals	**(2,741,344)**	**(720,909)**	**(2,191,420)**	**(5,653,673)**
Ending balances	**45,294,668**	**18,041,944**	**61,513,442**	**124,850,054**
Net Book Values	**₱36,153,213**	**₱16,607,186**	**₱18,558,429**	**₱71,318,828**

	2011			
	Building and Building Improvements	Transportation Equipment	Furniture, Fixtures and Other Equipment	Total
Costs				
Beginning balances	₱48,691,361	₱29,606,046	₱79,185,419	₱157,482,826
Additions	27,510,210	7,366,152	9,566,027	44,442,389
Disposals	–	(5,654,565)	(22,139,716)	(27,794,281)
Ending balances	76,201,571	31,317,633	66,611,730	174,130,934

(forward)

	2011			
	Building and Building Improvements	Transportation Equipment	Furniture, Fixtures and Other Equipment	Total
Accumulated Depreciation and Amortization				
Beginning balances	₱44,334,995	₱12,366,643	₱68,384,681	₱125,086,319
Depreciation and amortization	1,519,896	5,729,483	8,195,959	15,445,338
Disposals	–	(5,654,562)	(21,578,123)	(27,232,685)
Ending balances	45,854,891	12,441,564	55,002,517	113,298,972
Net Book Values	₱30,346,680	₱18,876,069	₱11,609,213	₱60,831,962

Total depreciation and amortization amounting to ₱615,254 in 2012 and ₱180,610 in 2011 were capitalized as part of construction in progress.

There are no restrictions on the Group's title on the property and equipment and there are no property and equipment pledged as security for liabilities.

15. Goodwill

On January 14, 2008, the Parent Company purchased additional equity interest of KSA. On July 25, 2007, the Parent Company acquired KPPI through a merger where the former is the surviving entity. The aggregate amount of goodwill from both transactions amounted to ₱394,926,466.

The recoverable amount of the goodwill arising from the acquisition of KSA was estimated based on the value in use computation using cash flow projections approved by management covering a five year period. Goodwill is allocated to KSA's investment property, the CGU. The discount rates applied in 2011 and 2010 to the cash flow projections were based on the Group's weighted average cost of capital.

In 2011, the recoverable amount of the CGU to which goodwill is allocated approximates the carrying amount of the CGU because of the increase in the discount rate to 18.37% in 2011. This resulted to recognition of provision for impairment loss amounting to ₱394,926,466.

16. Accounts Payable and Other Current Liabilities

	2012	2011
Trade:		
Accounts payable	**₱204,334,485**	₱132,093,542
Accrued expenses:		
Construction	**210,409,080**	99,158,915
Commission	**57,298,253**	46,773,879
Outside services	**20,595,611**	22,325,443
Professional fees	**20,220,381**	37,057,719
Interest	**18,830,197**	22,132,514
Repairs and maintenance	**8,150,293**	7,407,433
Administrative	**7,348,440**	10,567,620
Others	**81,469,609**	82,486,111

(forward)

	2012	2011
Retention payables	**₱333,524,660**	₱180,217,392
Advances from condominium unit buyers	**115,456,675**	107,131,704
Reservation payables	**111,121,422**	127,062,167
Customers' deposits	**82,932,252**	691,428,823
Payable to contractors and suppliers	**57,867,669**	90,245,547
Construction bonds	**40,625,711**	31,278,090
Nontrade:		
Deferred output VAT	**99,687,841**	116,139,545
Payable to related parties (Note 29)	**43,219,527**	46,063,575
Output VAT	**35,468,567**	43,971,726
Withholding taxes	**23,583,083**	38,626,069
Other current liabilities	**180,114,608**	188,631,806
	₱1,752,258,364	₱2,120,799,620

Accounts payable and accrued expenses are noninterest-bearing and are normally settled within 30 to 60 days and within the next financial year, respectively.

Other accrued expenses consist of accruals for utilities, advertising and promotions, insurance, other employee related, and various expenses.

Retention payables represent the portion of contractor billings which will be paid upon satisfaction by the contractors of the conditions specified in the contracts or until the defects have been corrected.

Advances from condominium unit buyers pertain to the amounts received in advance from the condominium unit buyers of TSFSP for utilities, maintenance, repairs of common areas and titling fees. They will be paid to The St. Francis Shangri-la Place Condominium Corporation (TSFSPCC) when demanded. TSFSPCC is an affiliate through interlocking directors.

Reservation payables pertain to cash paid by the buyers of condominium units for the reservation of the units purchased. These shall be considered as part of the downpayment on the units purchased upon execution of the contracts.

Customers' deposits represent downpayments made by condominium unit buyers with executed contracts which are to be applied against the receivables upon recognition of revenue (Note 7).

Payable to contractors and suppliers represents progress billings from various contractors for the material and labor costs incurred to date with normal credit terms of 30 to 60 days, but may go beyond as agreed.

Construction bonds pertain to cash deposits posted by tenants as security for any expenses or damages that may be incurred by SLPC in relation to construction activities conducted by the tenants during the fit-out, as well as during renovation period of the lease. It is normally returned to the tenants within six months after completion of their construction activities.

Other current liabilities pertain to various immaterial account balances.

The terms, balances and the volume of related party transactions which were and were not eliminated during consolidation are disclosed in Note 29.

In 2012 and 2011, long-outstanding liabilities amounting to ₱8,836,466 and ₱22,597,644, respectively, were derecognized (see Note 21).

17. **Bank Loans**

On November 28, 2006 and November 30, 2006, KSA obtained interest-bearing loan facilities from a local bank amounting to ₱1,100,000,000 and ₱600,000,000, respectively. These loans are payable in 28 equal quarterly installments. The principals are payable starting first quarter of 2007 with interest at a fixed rate of 7.22% which approximates the EIR. The repayment of the loans as to principals and interest, and all sums due hereunder as penalties, indemnities or the reimbursement of costs or expenses are secured by the mortgage or other security executed and delivered by KSA over the parcels of land with improvements thereon more commonly known as TEC located at the corner of Ayala Avenue and Paseo de Roxas, Makati City, and include the building, and all machineries, equipment and other improvements now existing thereon, covered by and more particularly described in the various titles derived from Transfer Certificates of Title (TCT) No. 175468, with an area of 3,125 square meters, more or less; 175469, with an area of 1,317 square meters, more or less; and 175470, with an area of 1,680 square meters, more or less (see Note 11).

On August 5, 2011, KSA and the local bank agreed to change the applicable interest rate structure of the loan from a fixed rate of 7.22% to a floating rate equal to the aggregate of the three-month Philippine Dealing System Treasury Fixing (PDST-F) rate and a margin of 1.75%, but not less than the outright borrowing rate of the Philippine Central Bank.

On June 25, 2007, SLPC obtained an unsecured seven-year term loan from a local bank amounting to ₱900,000,000 for permanent working capital and refinancing of SLPC's existing loans with interest based on PHIREF rate plus 0.75% per annum. The loan is payable in 28 equal quarterly installments commencing at the initial drawdown dates, and is subject to, which was complied by SLPC, with a certain debt-to-equity ratio.

On February 12, 2008, the Parent Company obtained an unsecured ten-year term loan facility from a local bank amounting to ₱3,500,000,000 with interest based on Philippine Reference (PHIREF) rate plus 0.75% per annum. The loan is payable in 24 equal quarterly installments commencing on the 17^{th} quarter from the initial borrowing date and is subject to, which was complied by the Parent Company, with a certain debt-to-equity ratio. The Parent Company has fully drawn the facility as of December 31, 2009.

On July 30, 2012, the Company obtained another ten-year loan facility from a local bank amounting to ₱5,000,000,000 with interest based on three-month Treasury Bill rate as published in the PDST-F plus a spread of 0.75% per annum; the Company has a one-time option to convert to a fixed rate. The loan is payable in 24 equal quarterly installments commencing on the 17^{th} quarter from the initial borrowing date, is secured by a 'negative pledge' on all present and future assets of the Company and is subject to a debt service coverage ratio. As of December 31, 2012, total drawdown from the facility amounted to ₱1,000,000,000.

The current and noncurrent portions of this account at December 31 and its movements during the year are as follows:

	2012	2011
Beginning principal balance	**₱4,303,419,044**	₱4,672,904,760
Proceeds from loan availment	**1,000,000,000**	–
Principal payments during the year	**(806,985,711)**	(369,485,716)
Ending principal balance	**4,496,433,333**	4,303,419,044
Less current portion	**952,980,952**	371,428,571
Noncurrent portion	**₱3,543,452,381**	₱3,931,990,473

Interest expense arising from the above loans charged to operations in 2012, 2011 and 2010 amounted to ₱164,423,225, ₱203,857,053 and ₱259,698,559, respectively (see Note 21).

18. Deposits from Tenants

This account represents noninterest-bearing rental deposits from tenants equivalent to six months' rent which have been discounted using MART 1 rates and are carried at amortized cost. The difference between the discounted and face values of the deposits was recognized as deferred lease income. Deferred lease income is amortized on a straight line basis over the lease term and is recognized in profit or loss as additional rent income. Interest is accreted on the deposits from tenants using the EIR method and is recognized as additional interest expense in profit or loss.

The movements in the unamortized discount on deposits from tenants for the years ended December 31 follow:

	2012	2011
Beginning balance	**₱26,241,283**	₱27,589,227
Additions	**422,208**	3,938,703
Amortization of discount (Note 21)	**(503,350)**	(5,286,647)
Ending balance	**₱26,160,141**	₱26,241,283

19. Equity

The details of the Parent Company's capital stock as of December 31, 2012 and 2011 are as follows:

	No. of Shares	Amount
Authorized - ₱1.00 par value	8,000,000,000	₱8,000,000,000
Unissued	(3,235,941,018)	(3,235,941,018)
Issued and fully paid	4,764,058,982	₱4,764,058,982

The Parent Company has its primary listing on the Philippine Stock Exchange (PSE). It was registered on June 13, 1991 with total listed shares of 4,764,058,982 which was initially issued at ₱1.18 per share. As at December 31, 2012, 2011 and 2010, the Parent Company has 5,899, 5,768 and 5,899 stockholders, respectively. Details of the Parent Company's stockholders are disclosed in the annual report.

There are 2,140,645 shares that are in the treasury amounting to ₱6,850,064 as of December 31, 2012 and 2011. There are no movements in the Group's treasury shares in 2012 and 2011.

As of December 31, 2012 and 2011, retained earnings include accumulated fair value adjustments of investment properties amounting to ₱12,544,780,488 and ₱12,175,646,730, respectively.

20. Dividends

The details of cash dividends approved by the Board are as follows:

	2012	2011	2010
Aggregate amount	**₱390,477,246**	₱350,096,199	₱428,572,830
Per share	**₱0.082**	₱0.074	₱0.090

As of December 31, 2012 and 2011, unpaid dividends amounted to ₱17,955,099 and ₱15,737,613, respectively.

The Parent Company's Board approved the declaration of the following cash dividends for the years ended December 31:

Date of Declaration	Total	Per Share
2012		
February 17	**₱200,090,477**	**₱0.042**
August 23	**190,386,769**	**0.040**
	₱390,477,246	**₱0.082**
2011		
February 23	₱183,429,067	₱0.039
August 23	166,667,132	0.035
	₱350,096,199	₱0.074
2010		
February 24	₱261,905,619	₱0.055
August 26	166,667,211	0.035
	₱428,572,830	₱0.090

On February 17, 2012, the Board approved the declaration of ₱200,090,477 cash dividends or ₱0.042 per share to all stockholders of record as of March 5, 2012 to be taken up from the unrestricted retained earnings of the Company as of December 31, 2011.

On August 23, 2012, the Board approved the declaration of ₱190,386,769 cash dividends or ₱0.040 per share to all stockholders of record as of September 15, 2012 to be taken up from the unrestricted retained earnings of the Parent Company as of June 30, 2012.

On February 23, 2011, the Board approved the declaration of ₱183,429,067 cash dividends or ₱0.039 per share to all stockholders of record as of March 15, 2011 to be taken up from the unrestricted retained earnings of the Parent Company as of December 31, 2010.

On August 23, 2011, the Board approved the declaration of ₱166,667,132 cash dividends or ₱0.035 per share to all stockholders of record as of September 15, 2011 to be taken up from the unrestricted retained earnings of the Parent Company as of June 30, 2011.

On February 24, 2010, the Board approved the declaration of ₱261,905,619 cash dividends or ₱0.055 per share to all stockholders of record as of March 17, 2010 to be taken up from the unrestricted retained earnings of the Parent Company as of December 31, 2009.

On August 26, 2010, the Board approved the declaration of ₱166,667,211 cash dividends or ₱0.035 per share to all stockholders of record as of September 15, 2010 to be taken up from the unrestricted retained earnings of the Parent Company as of June 30, 2010.

21. Interest Income, Other Income (Expense) and Interest Expense

Interest Income

	2012	2011	2010
Interest on:			
Cash in banks and cash equivalents (Note 5)	**₱53,284,973**	₱135,644,243	₱153,995,094
Accretion of installment contracts receivable (Note 7)	**226,248,576**	180,734,248	60,964,785
Overdue accounts from tenants	**4,980,064**	12,112,925	5,331,539
	₱284,513,613	₱328,491,416	₱220,291,418

Other Income (Expense)

	2012	2011	2010
Dividend income	**₱54,695,511**	₱23,341,370	₱432,781
Forfeited security deposits	**17,866,901**	–	354,564
Administration and management fee (Note 29)	**10,673,047**	8,525,821	8,448,393
Gain on:			
Reversal of liabilities (Note 16)	**8,836,466**	22,597,644	7,348,651
Sale of property and equipment	**163,535**	1,700,840	2,479,641
Customer lounge fee	**6,573,821**	7,052,902	7,162,007
Revenue from ancillary services	**5,534,096**	5,785,329	3,552,261
Miscellaneous rental income	**5,000,000**	16,842,449	11,108,787
Adjustment in fair value of financial assets at FVPL (Note 6)	**4,936,110**	(287,530)	3,949,445
Banner income	**3,043,607**	5,822,786	5,920,286
Income from back out buyers	**2,620,075**	2,976,448	3,165,635
Service revenue	**319,270**	780,282	578,736
Rebates from tax payments	**38,823**	140,688	3,547,312
Sale of memorial lots held for sale	**44,839**	849,343	1,310,654
Advertising income	**–**	2,592,393	3,207,567
Refund from Manila Electric Company	**–**	480,755	5,769,057
Signage fee	**–**	–	14,807,662
Income from overdue accounts	**–**	–	3,694,743
Others	**4,209,643**	7,649,735	4,566,542
	₱124,555,744	₱106,851,255	₱91,404,724

Interest Expense and Bank Charges

	2012	2011	2010
Interest on bank loans and bank charges (see Note 17)	**₱171,776,128**	₱208,049,860	₱260,010,135
Accretion of deposits from tenants (see Note 18)	**503,350**	5,286,647	1,882,078
	₱172,279,478	₱213,336,507	₱261,892,213

22. Cost of Condominium Sales

	2012	2011	2010
SPRC	**₱2,159,862,224**	₱584,910,436	₱331,243,962
Parent Company	**65,015,685**	18,627,562	52,061,338
	₱2,224,877,909	₱603,537,998	₱383,305,300

23. Taxes and Licenses, and General and Administrative Expenses

Taxes and Licenses

Taxes and licenses pertain to payment for business taxes, permits, real property taxes and other taxes incurred by the Group.

General and Administrative Expenses

	2012	2011	2010
Advertising and promotions	**₱45,812,309**	₱16,399,107	₱19,449,512
Professional fees and outside services	**31,948,297**	32,215,921	25,284,372
Janitorial, security and other services	**25,497,461**	25,676,360	24,214,213
Condominium dues (Note 29)	**21,233,778**	27,578,853	53,071,277
Bad debts (see Note 7)	**11,426,470**	885,532	1,109,566
Carpark	**11,151,990**	12,528,403	12,398,566
Commission	**6,266,241**	6,275,540	5,908,587
Telephone and communication	**6,152,743**	5,773,533	5,508,840
Utilities	**6,114,747**	5,137,769	5,117,680
Supplies	**5,255,568**	5,093,826	5,357,160
Repairs and maintenance	**3,009,479**	2,174,646	3,163,017
Membership fees and dues	**2,551,674**	2,255,010	1,907,782
Transportation and travel	**2,524,495**	2,908,425	2,642,299
Systems license and maintenance	**2,436,643**	1,786,999	2,859,085
Entertainment, amusement and representation	**2,097,206**	2,267,449	2,332,456
Gas and oil	**1,405,820**	1,418,632	1,448,747
Reproduction charges	**729,909**	1,279,993	2,238,424
Donation	**720,214**	12,070	178,348
Subscriptions, books and manuals	**95,801**	252,268	695,158
Others	**15,503,333**	884,329	9,129,393
	₱201,934,178	₱152,804,665	₱184,014,482

24. **Staff Costs**

	2012	2011	2010
Salaries and wages	**₱183,704,895**	₱168,681,131	₱174,466,639
Employee benefits	**19,552,818**	20,311,206	21,126,987
Retirement benefit costs (Note 25)	**12,371,261**	9,294,264	8,803,126
Others	**5,429,565**	5,308,570	4,854,137
	₱221,058,539	₱203,595,171	₱209,250,889

25. **Retirement Benefits**

The Group has a funded, noncontributory defined benefit plan, providing death, disability and retirement benefits for all of its regular employees. The plan is administered by an independent trustee bank. Under the plan, the normal retirement age is 60 and completion of at least five years of service. Normal retirement benefit consists of a lump sum benefit equivalent to 100% of the employee's final pay for every year of service. The retirement plan is compliant with Republic Act (RA) 7641, *Retirement Pay Law*.

The accrued retirement benefits recognized in the consolidated statement of financial position as part of "Accrued employee benefits" were determined as follows:

	2012	2011
Present value of defined benefit obligations	**₱146,366,723**	₱88,858,311
Fair value of plan assets	**86,795,958**	72,078,986
Present value of unfunded obligations	**59,570,765**	16,779,325
Unrecognized actuarial losses	**(37,401,661)**	(350,125)
	₱22,169,104	₱16,429,200

The movements in the present value of defined benefit obligations are as follows:

	2012	2011
Beginning balance	**₱88,858,311**	₱70,063,671
Current service cost	**9,902,400**	7,339,300
Interest cost	**5,957,500**	5,444,500
Actuarial loss	**41,790,569**	12,116,769
Benefits paid	**(142,057)**	(6,105,929)
Ending balance	**₱146,366,723**	₱88,858,311

The movements in the fair value of plan assets are as follows:

	2012	2011
Beginning balance	**₱72,078,986**	₱61,685,667
Expected return on plan assets	**3,602,400**	3,084,500
Actual contributions	**6,489,300**	6,980,700
Actuarial gain	**4,625,272**	2,432,872
Benefits paid	**–**	(2,104,753)
Ending balance	**₱86,795,958**	₱72,078,986

The Group's net plan assets are as follows:

	2012	2011	2010
Cash in bank	**3.00%**	8.00%	5.40%
Investments in bonds and other debt instruments	**97.00%**	92.00%	94.60%
	100.00%	100.00%	100.00%

The movements in the accrued retirement benefits recognized in the consolidated statements of financial position are as follows:

	2012	2011
Beginning balance	**₱16,429,200**	₱18,116,812
Retirement benefit costs	**12,371,261**	9,294,264
Benefits paid from operating fund	**(142,057)**	(4,001,176)
Contributions	**(6,489,300)**	(6,980,700)
Ending balance	**₱22,169,104**	₱16,429,200

Retirement benefit costs recognized in the consolidated profit or loss as part of "Staff costs" consist of the following:

	2012	2011	2010
Current service cost	**₱9,902,400**	₱7,339,300	₱7,854,800
Interest cost	**5,957,500**	5,444,500	5,595,860
Expected return on plan assets	**(3,602,400)**	(3,084,500)	(4,146,134)
Past service cost	**–**	200	3,900
Net actuarial gain recognized during the year	**113,761**	(405,236)	(505,300)
	₱12,371,261	₱9,294,264	₱8,803,126

The actual return on plan assets is as follows:

	2012	2011	2010
Expected return on plan assets	**₱3,602,400**	₱3,084,500	₱4,146,134
Actuarial gain (loss)	**4,625,272**	2,432,872	(993,342)
	₱8,227,672	₱5,517,372	₱3,152,792

The amounts for the current and previous periods follow:

	2012	2011	2010	2009	2008
Present value of defined benefit obligations	**₱146,366,723**	₱88,858,311	₱70,063,671	₱62,933,000	₱23,707,707
Fair value of plan assets	**(86,795,958)**	(72,078,986)	(61,685,667)	(53,255,322)	(50,549,644)
Unfunded (funded) status	**59,570,765**	16,779,325	8,378,004	9,677,678	(26,841,937)
Experience adjustment on defined benefit obligations	**26,030,269**	(1,895,031)	2,146,076	(1,221,243)	(2,730,443)

The principal actuarial assumptions used follow:

	2012	2011	2010
Discount rate	**5.11% to 6.34%**	6.47% to 7.69%	9.08% to 10.55%
Expected rate of return on plan assets	**7.00%**	5.00%	5.00%
Future salary increase rate	**5.00%**	5.00%	4.00%

Mortality rate is based on the 1994 Group Annuity Mortality (GAM) Table and 1983 GAM Table for 2012 and 2011, respectively.

The expected return on plan assets was determined by considering the expected return available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at valuation date. Expected contributions to the retirement benefit plan in 2013 will amount to ₱18,427,800.

26. Unreimbursed Share in Common Expenses

SLPC collects reimbursements from tenants, based on either a fixed amount or a percentage of sales, for the tenants' share in the costs of utilities, janitorial, security and other expenses on common areas shared by SLPC and the tenants. SLPC also collects reimbursements from the tenants for the actual costs of utilities, repairs and maintenance used by the tenants in their leased areas. All unreimbursed expenses are borne by SLPC and accordingly reported as operating costs. Any excess of reimbursement over the share in common expenses is reported as part of "Others" under "Other income (expense)" in the profit or loss.

The details of the account for the years ended December 31 follow:

	2012	2011	2010
Light, power and water	**₱266,587,817**	₱255,405,243	₱256,597,845
Janitorial, security and other services	**60,371,499**	55,810,482	51,734,689
Repairs and maintenance	**43,214,758**	39,731,609	43,261,024
Advertising and promotions	**26,207,449**	24,119,605	26,400,243
Tenants' reimbursements	**(385,329,657)**	(375,066,939)	(377,993,801)
	₱11,051,866	₱–	₱–

27. Income Taxes

a. The details of provision for income taxes for the years ended December 31 follow:

	2012	2011	2010
Current:			
RCIT	**₱458,301,717**	₱375,741,690	₱413,233,701
Final tax on interest income	**10,655,427**	27,809,583	30,782,607
Excess of MCIT	**–**	4,453,008	5,774,912
	468,957,144	408,004,281	449,791,220
Deferred	**67,235,367**	106,780,506	(47,525,142)
	₱536,192,511	₱514,784,787	₱402,266,078

b. The details of the recognized deferred income tax assets at December 31 follow:

	2012	2011
Difference in profit, installment method versus POC method	**₱254,415,053**	₱213,764,254
Accumulated impairment losses	**55,226,022**	55,866,780
Advance rental	**44,118,765**	32,820,757
Accrued construction costs	**23,606,929**	3,383,192
Accrued employee benefits	**16,606,104**	10,088,074
Unamortized funded past service cost	**3,622,029**	4,022,911
Expense accruals	**2,684,153**	3,163,715
MCIT and excess MCIT over RCIT	**–**	7,682,101
Others	**2,970,536**	6,508,714
	₱403,249,591	₱337,300,498

c. The details of the recognized deferred income tax liabilities at December 31 follow:

	2012	2011
Unrealized increase in fair value of investment properties	**₱5,583,929,584**	₱5,440,445,497
Rent receivable not yet subjected to tax	**10,772,183**	20,289,770
Prepaid rent	**2,117,373**	2,665,831
Others	**1,222,500**	889,500
	₱5,598,041,640	₱5,464,290,598

d. The reconciliations of provision for income taxes using the statutory tax rate and the actual provision for income taxes for the years ended December 31 follow:

	2012	2011	2010
Provision for income tax at the statutory tax rate	**₱729,472,352**	₱563,036,160	₱506,358,111
Tax effects of:			
Difference between itemized and optional standard deductions (OSD)	**(101,627,479)**	(97,095,825)	(65,730,779)
Other non-taxable income, net of non-deductible expenses	**(80,886,988)**	(42,170,451)	(76,339,371)
Share in profits of associates	**(6,216,170)**	(5,989,967)	(25,271,355)
Interest income subjected to final tax	**(5,329,656)**	(13,564,424)	(15,399,509)
Movements in unrecognized deferred income tax assets	**780,452**	(7,908,646)	78,648,981
Provision for impairment of goodwill	**–**	118,477,940	–
Provision for income tax	**₱536,192,511**	₱514,784,787	₱402,266,078

e. The Group did not recognize the following deferred income tax assets as of December 31, 2012 and 2011 since management believes that the Group may not have sufficient future taxable profits available to allow all or part of them to be utilized in the future or prior to expiration:

	2012	2011
Accumulated impairment losses	**₱58,903,565**	₱49,222,924
NOLCO	**9,010,487**	55,201,527
Others	**706,570**	–
	₱68,620,622	₱104,424,451

f. The Group's NOLCO which is available for deduction against future taxable income follows:

Year Incurred	Beginning	Incurred	Expired/ Applied	Ending	Expiry Date
2012	₱–	₱2,999,835	₱–	₱2,999,835	2015
2011	42,748,888	–	(36,738,236)	6,010,652	2014
2010	3,634,053	–	(3,634,053)	–	2013
2009	8,818,586	–	(8,818,586)	–	2012
	₱55,201,527	₱2,999,835	(₱49,190,875)	₱9,010,487	

g. The Group's MCIT which can be applied to tax due follow:

Year Incurred	Beginning	Incurred	Applied	Ending	Expiry Date
2012	₱–	₱–	₱–	₱–	2015
2011	4,453,008	–	(4,453,008)	–	2014
2010	3,229,093	–	(3,229,093)	–	2013
	₱7,682,101	₱–	(₱7,682,101)	₱–	

h. RA No. 9504, effective on July 7, 2008 allows availment of OSD. Corporations, except for nonresident foreign corporations, may now elect to claim OSD in an amount not exceeding 40% of their gross income. In 2012, 2011 and 2010, KSA and SLPC availed the OSD for the computation of their taxable income.

28. Earnings Per Share

Basic and diluted earnings per share are the same since there are no dilutive potential common shares.

The computations of earnings per share for the years ended December 31 follow:

<u>Based on Net Income</u>

	2012	2011	2010
Net income attributable to equity holders of the Parent Company	**₱1,646,477,037**	₱1,056,716,268	₱1,000,702,887
Weighted average number of shares	**4,761,918,337**	4,761,918,337	4,761,843,625
Earnings per share	**₱0.346**	₱0.222	₱0.210

Based on Total Comprehensive Income

	2012	2011	2010
Total comprehensive income attributable to equity holders of the Parent Company	**₱1,646,838,187**	₱1,058,854,680	₱1,000,455,600
Weighted average number of shares	**4,761,918,337**	4,761,918,337	4,761,843,625
Earnings per share	**₱0.346**	₱0.222	₱0.210

29. Related Party Transactions and Balances

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 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.

- SPMSI provides management services for TEC of The Enterprise Center Condominium Corporation (TECCC), for TSFSP of TSFSPCC, and for TSGT of The Shang Grand Tower Condominium Corporation (TSGTCC) 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 TSFSSPCC management fees of ₱400,000, ₱100,000 and ₱100,000, respectively, per month, inclusive of VAT, with an escalation rate of 10% per annum. TECCC, TSFSPCC and TSGTCC are affiliates through interlocking directors.

- Reimbursement of expenses paid for by SLPC for ESHRI

- Condominium dues charged by TSFSPCC and TECCC

- SPSI operates and manages the parking facilities of ESHRI for fixed monthly concession fee of ₱27,500 from January 1, 2008 to December 31, 2009 and ₱30,800 starting January 1, 2010. This fee is included in the "Others" under "Other Income" (see Note 21).

▪ Advances to and from affiliates for operating expenses; and sharing of costs with affiliates.

	Amount/Volume			Outstanding balance			
	2012	2011	2010	**2012**	2011	**Terms**	**Conditions**
Rental (see Note 7)							
ESHRI	**₱81,454,884**	₱80,228,905	₱77,306,914	**₱26,036,496**	₱27,502,005	60-day; noninterest-bearing	Unsecured, no impairment
Management Services (see Note 21)							
TECCC	**₱6,179,643**	₱5,617,857	₱5,107,143	**₱1,171,280**	₱1,064,800	30-day; noninterest-bearing	Unsecured, no impairment
TSFSPCC	**2,767,857**	1,160,714	–	**691,964**	1,500,000	30-day; noninterest-bearing	Unsecured, no impairment
TSGTCC	**1,725,546**	1,568,679	1,426,071	**1,288,408**	878,460	30-day; noninterest-bearing	Unsecured, no impairment
	₱10,673,046	₱8,347,250	₱6,533,214	**₱3,151,652**	₱3,443,260		
Condominium dues (see Note 23)							
KSA	**₱12,681,514**	₱8,183,972	₱16,845,663	**₱–**	₱536,729	30-day; noninterest-bearing	Unsecured, no impairment
SPRC	**5,179,791**	16,035,450	27,702,002	**246,153**	235,134	30-day; noninterest-bearing	Unsecured, no impairment
Parent Company	**2,956,997**	3,029,430	8,193,612	–	–	30-day; noninterest-bearing	Unsecured, no impairment
SPDI	**348,057**	–	–	–	–	30-day; noninterest-bearing	Unsecured, no impairment
SPSI	**67,419**	330,000	330,000	–	–	30-day; noninterest-bearing	Unsecured, no impairment
	₱21,233,778	₱27,578,852	₱53,071,277	**₱246,153**	₱771,863		
Reimbursed expenses							
ESHRI	**₱13,326,206**	₱13,447,006	₱11,243,897	**₱2,300,056**	₱2,305,961	30-day; noninterest-bearing	Unsecured, no impairment
Concession fee (see Note 21)							
ESHRI	**₱77,000**	₱369,600	₱369,600	**₱–**	₱–	30-day; noninterest-bearing	Unsecured, no impairment
Advances to affiliates (see Note 7)							
TSFSPCC	**₱–**	₱–	₱–	**₱2,766,175**	₱4,552,408	30-day; noninterest-bearing	Unsecured, no impairment
TSGTCC	**–**	–	–	**2,226,904**	1,837,613	30-day; noninterest-bearing	Unsecured, no impairment
TECCC	**–**	–	–	**2,130,975**	1,563,008	30-day; noninterest-bearing	Unsecured, no impairment

(forward)

	Amount/Volume			Outstanding balance			
	2012	2011	2010	**2012**	2011	**Terms**	**Conditions**
Shangri-La Fijisian Resort	**₱–**	₱–	₱–	**₱626,952**	₱626,952	Payable on demand; noninterest-bearing	Unsecured, no impairment
ESHRI	–	–	–	**299,109**	785,517	30-day; noninterest-bearing	Unsecured, no impairment
Mactan Shangri-La Hotel	–	–	–	**164,541**	208,921	30-day; noninterest-bearing	Unsecured, no impairment
Makati Shangri-La Hotel	–	–	–	**153,810**	156,920	30-day; noninterest-bearing	Unsecured, no impairment
CPI	–	–	–	**12,250**	2,563,886	30-day; noninterest-bearing	Unsecured, no impairment
MBRI	–	–	–	**–**	29,243,714	30-day; noninterest-bearing	Unsecured, no impairment
Others	–	–	–	**1,965,079**	4,343,815	30-day; noninterest-bearing	Unsecured, no impairment
	₱–	₱–	₱–	**₱10,345,795**	₱45,882,754		
Advances from affiliates (see Note 16)							
TSGTCC	**₱–**	₱–	₱–	**₱790,068**	₱790,068	Payable on demand; noninterest-bearing	Unsecured, no impairment
TSFSPCC	–	–	–	**16,643**	903,242	30-day; noninterest-bearing	Unsecured, no impairment
TECCC	–	–	–	**–**	1,135,288	30-day; noninterest-bearing	Unsecured, no impairment
Others	–	–	–	**7,963**	304,414	30-day; noninterest-bearing	Unsecured, no impairment
	₱–	₱–	₱–	**₱814,674**	₱3,133,012		

- 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.

	2012	2011	2010
SLPC	**₱10,642,292**	₱8,899,863	₱10,211,753
KSA	**1,929,981**	1,446,214	1,015,733
	₱12,572,273	₱10,346,077	₱11,227,486

- 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	₱30,189,863
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 ₱409,499,875.

These investments were presented as part of AFS financial assets (see Note 13).

Transactions with associates

- On February 17, 2012, the Board of the Parent Company passed and approved a resolution wherein it will act as a surety to the loan of FBSHI. FBSHI has secured a ₱10,000,000,000 long-term loan facility with a local bank to finance the completion of its project. Under the continuing suretyship agreement executed between the Parent Company and the local bank on May 23, 2012, the Parent Company agreed to be solidarily liable to the extent of 50% of any and all amounts due under the loan agreement between FBSHI and the local bank. The local bank is entitled under current jurisprudence to demand directly from the Parent Company any and all amounts due. Should demand be made, the Parent Company will recognize a liability in its consolidated financial statements.

- Advances to and from associates for operating expenses.

	Amount/Volume			Outstanding balance			
	2012	2011	2010	**2012**	2011	**Terms**	**Conditions**
Advances to associates (see Note 7)							
FBSHI	**₱–**	₱–	₱–	**₱2,414,991**	₱2,962,473	30-day; noninterest-bearing	Unsecured, no impairment
ISPI	**–**	–	–	**2,300,140**	1,704,054	30-day; noninterest-bearing	Unsecured, no impairment
	₱–	₱–	₱–	**₱4,715,131**	₱4,666,527		
Advances from associate (see Note 16)							
SLPI	**₱–**	₱–	₱–	**₱42,158,700**	₱42,158,700	Payable on demand; noninterest-bearing	Unsecured, no impairment

Outstanding balances from the above related party transactions as at December 31 follow:

	2012	2011
Receivables:		
Affiliates:*		
Advances	**₱10,345,795**	₱45,728,592
Management services	**3,151,652**	3,443,260
Reimbursed expenses	**2,300,056**	2,305,961
Associates	**4,715,131**	4,666,527
	₱20,512,634	₱56,144,340
Accounts payable and other current liabilities:		
Associate	**₱42,158,700**	₱42,158,700
Affiliates		
Advances	**814,674**	3,133,012
Condominium dues	**246,153**	771,863
	₱43,219,527	₱46,063,575

* *Affiliates through interlocking directors*

Compensation of key management personnel for the years ended December 31 consists of the following:

	2012	2011	2010
Salaries and other short-term employee benefits	**₱46,768,244**	₱44,364,109	₱65,104,509
Post-employment benefits	**2,765,177**	2,974,282	3,678,415
	₱49,533,421	₱47,338,391	₱68,782,924

There are no stock option plans for officers and employees and no other long-term benefits aside from retirement benefits.

Related Party Transactions and Balances Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were eliminated during consolidation are as follows:

a. Lease of Parent Company's land to SLPC

	2012	2011	2010
Rental income	**₱110,049,049**	₱106,147,779	₱98,956,784

A portion of the Parent Company's land where the Shangri-La is located is being leased to SLPC. The lease is for a period of 25 years from January 6, 1993. Rental revenue, calculated at 10% of SLPC's annual rental revenue from mall operations plus a certain percentage of the carpark's net income.

b. Usufructuary agreement of Parent Company and SLPC and SPSI

	2012	2011	2010
SLPC	**₱10,545,010**	₱16,811,968	₱13,366,734
Parent Company	**6,754,155**	6,743,462	12,039,300
	₱17,299,165	₱23,555,430	₱25,406,034

On January 16, 2002, the Parent Company entered into a usufructuary agreement with SLPC and SPSI. SPSI will be granted limited usufructuary rights over the Parent Company's and SLPC's parking spaces for a consideration equivalent to a certain percentage of SPSI's gross income less direct and indirect expenses. The agreement is subject to renewal on a yearly basis. Rental income of the Parent Company and SLPC, and rental expenses of SPSI are as follows:

c. SPSI has an agreement with KSA, whereby SPSI is to manage and operate the parking slots of KSA, which commenced on January 1, 2009. In consideration of the agreement, the parties agreed on the following revenue-sharing scheme: KSA shall receive the amount equivalent to 75% of the monthly gross parking revenue, less applicable VAT, while SPSI shall receive the amount equivalent to 25% of the monthly gross parking revenue, less applicable VAT. Income of KSA and expenses of SPSI, which are equivalent to KSA's share follows:

	2012	2011	2010
Rental income and expense	**₱24,036,327**	₱22,602,749	₱20,278,599

d. The Parent Company leases its office space and SPRC leases a unit on Level 1 in Shangri-La from SLPC.

The Parent Company's lease agreement is for a period of three years starting November 1, 2002. By mutual agreement of the parties, the contract of lease was renewed on May 16, 2010 for another three years commencing on May 17, 2010 and ending May 16, 2013. The Parent Company's rent lease expense is exclusive of VAT and subject to five percent escalation every year.

In 2010, SPRC and SLPC entered into a lease agreement, whereby SPRC shall lease a unit on Level 1 in Shangri-La for the higher of: (a) a minimum guarantee rent, or (b) a certain percentage of gross sales, exclusive of VAT. The lease commenced on May 1. 2010 and will end on April 30, 2014, subject to renewal as may be mutually agreed by the parties.

Rental expenses of the Parent Company and SPRC, and rental income of SLPC are as follows:

	2012	2011	2010
SPRC	**₱7,898,898**	₱7,469,808	₱5,795,407
Parent Company	**4,200,604**	3,210,972	2,775,135
	₱12,099,502	₱10,680,780	₱8,570,542

The Parent Company's and SPRC's refundable deposits from these transactions amounted to ₱650,000 as of December 31, 2012 and 2011.

e. Management agreement between KSA and SPMSI

	2012	2011	2010
Management fee	**₱2,317,366**	₱2,106,696	₱1,915,179

KSA entered into a management agreement with SPMSI for a monthly fee of ₱150,000 with 10% annual escalation for a period of five years starting March 2008. SPMSI shall provide on-site property leasing management including Head Office support services and periodic audit to ensure compliance with international practices; perform staff recruitment, training and performance evaluation; and perform financial management, including billing and collection and budget provisioning.

f. In 2011, SPDI obtained an unsecured, non-interest bearing, payable on or before December 31, 2012 loan from SHIL amounting to ₱2,317,500,000.

g. Parent Company's dividend income from declarations of the following subsidiaries:

	2012	2011	2010
SLPC	**₱700,000,000**	₱395,882,880	₱236,160,000
KSA	**132,250,000**	132,250,000	66,125,000
SPSI	**3,500,000**	3,500,000	3,000,000
SPMSI	**3,000,000**	1,700,000	1,150,000
SPRC	–	400,000,000	–
SPDI	–	18,000,000	–
	₱838,750,000	₱951,332,880	₱306,435,000

h. Reimbursement of expenses paid for by a related party on behalf of a related party and vice-versa.

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

Outstanding balances from the above related party transactions at December 31 which were eliminated during consolidation are as follows:

	2012	2011
Receivables of the Parent Company from:		
SPDI	**₱670,257,771**	₱134,464
SLPC	**17,413,928**	22,607,133
SPMSI	**16,500,456**	14,445,455
SPSI	**4,853,796**	4,811,687
KMSC	**989,161**	830,711
SGCHI	**500,450**	500,602
SFBHI	**500,250**	500,452
KSA	**89,617**	158,501
SPRC	–	12,521,226
	₱711,105,429	₱56,510,231
Payables of the Parent Company to:		
SPDI	**₱770,523,441**	₱654,425,000
SLPC	**1,546,697**	1,821,174
SPRC	–	446,836,412
	₱772,070,138	₱1,103,082,586
Receivables of:		
SHIL from SPDI	**₱2,317,500,000**	₱2,317,500,000
SPDI from SPRC	–	416,189,906
Others	**13,259,889**	9,099,454
	₱2,330,759,889	₱2,742,789,360

The receivables and payables between related parties, except for those arising from reimbursement of expenses and those that are unsecured and noninterest-bearing which are payable on demand, have normal credit terms of 30 to 90 days, but may go beyond as agreed.

30. Commitments and Contingencies

On July 14, 1993, a complaint was initially filed before the Pasig Regional Trial Court (RTC-Pasig) by the principal contractor of the Shangri-La against the Parent Company and the Board for the recovery of the balance of alleged unpaid construction work, compensatory and moral damages, legal fees and litigation costs totaling about ₱122,000,000, exclusive of interest. In the answer *ex abundante ad cautelam*, as a counterclaim, the Parent Company is asking for approximately ₱182,000,000 in overpayment plus ₱7,000,000 in damages and litigation costs. Due to technical reasons, the principal contractor re-filed the case on or about June 23, 1998 with the Construction Industry Arbitration Commission (CIAC).

On October 27, 1998, the RTC-Pasig issued an order directing the parties to arbitrate their dispute under the Arbitration Law. A similar order was issued by the CIAC on February 3, 1999 dismissing the proceedings instituted before it by the plaintiff. The plaintiff, accordingly, served a demand for arbitration dated April 5, 1999 under the provisions of the Arbitration Law.

The arbitration hearing, during which both the Parent Company and the principal contractor were given the opportunity to present their witnesses, commenced in December 2006 and ended with the decision of the Arbitral Tribunal promulgated on July 31, 2007. In its decision, the Arbitral Tribunal awarded to the principal contractor the sum of ₱46,905,987, and to the Parent Company, the sum of ₱8,387,484 (net award to the principal contractor was ₱38,518,503).

The principal contractor has appealed the Arbitral Tribunal's decision to the Court of Appeals, praying for the award of the full amount of its claim. The Parent Company has partially appealed the said decision, praying for the reduction of the award to the plaintiff. The Court of Appeals, in its decision dated August 12, 2008 and resolution dated April 16, 2009, awarded to the principal contractor ₱24,497,556, unpaid progress billings based on the original scope of work, and denied the Parent Company of its motion for partial reconsideration.

On June 5, 2009, the Parent Company filed a Petition for Review on Certiorari to the Supreme Court praying to issue an order or decision: (a) declaring the Parent Company as not liable to the principal contractor for unpaid progress billings based on the original scope of work, (b) ordering the principal contractor to pay the Parent Company ₱7,590,000 as liquidated damages, and (c) setting aside or reversing the Court of Appeal's decision and resolution insofar as they are adverse to the Parent Company. On a Petition for Review on Certiorari dated June 11, 2009, the principal contractor prayed to the Supreme Court to modify the decision and resolution of the Court of Appeals, to award the principal contractor the full amount of its claim. Both petitions are pending resolution by the Supreme Court as of February 19, 2013.

The Parent Company and SLPC have other pending legal cases which are being contested by the Parent Company, SLPC and their legal counsels. Management and the legal counsels believe that the final resolution of these cases will not have a material effect on the Group's consolidated financial position and results of operations.

31. Lease Commitments

The Group entered into lease agreements with third parties covering the freehold buildings and their improvements. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Contingent rental income recognized in the profit or loss amounted to ₱90,150,274, ₱100,122,604 and ₱77,864,779 in 2012, 2011 and 2010, respectively.

The minimum future rental collections under non-cancellable operating leases follow:

	2012	2011	2010
Within one year	**₱1,462,742,004**	₱1,318,015,876	₱1,269,869,411
After one year but not more than five years	**1,744,146,930**	1,423,272,201	1,540,456,257
More than five years	**93,283,161**	84,802,874	75,279,521
	₱3,300,172,095	₱2,826,090,951	₱2,885,605,189

32. **Financial Instruments**

The following table sets forth per category the carrying values and estimated fair values of the Group's financial assets and financial liabilities recognized as of December 31:

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL	**₱32,275,696**	**₱32,275,696**	₱27,339,586	₱27,339,586
Loans and receivables:				
Cash and cash equivalents*	**1,573,227,845**	**1,573,227,845**	1,423,648,786	1,423,648,786
Cash in escrow	**55,066,771**	**55,066,771**	144,929,600	144,929,600
Receivables:				
Installment contracts receivable**	**397,091,493**	**397,091,493**	86,361,410	86,361,410
Rent	**95,230,392**	**95,230,392**	151,818,332	151,818,332
Related parties	**20,512,634**	**20,512,634**	56,298,502	56,298,502
Advances to officers and employees	**2,008,535**	**2,008,535**	1,483,525	1,483,525
Interest	**1,138,118**	**1,138,118**	1,095,099	1,095,099
Others	**63,669,495**	**63,669,495**	48,358,695	48,358,695
Refundable deposits	**42,955,708**	**42,608,460**	29,574,723	29,230,277
	2,250,900,991	**2,250,553,743**	1,943,568,672	1,943,224,226
AFS financial assets	**502,022,842**	**502,022,842**	500,912,842	500,912,842
	₱2,785,199,529	**₱2,784,852,281**	₱2,471,821,100	₱2,471,476,654
Other Financial Liabilities				
Accounts payable and other current liabilities***	**₱1,399,465,200**	**₱1,399,465,200**	₱914,939,484	₱914,939,484
Bank loans	**4,496,433,333**	**4,878,716,454**	4,303,419,044	4,506,140,823
Deposits from tenants	**769,500,627**	**662,857,037**	609,846,642	597,386,608
Dividends payable	**17,955,099**	**17,955,099**	15,737,613	15,737,613
Accrued employee benefits****	**15,018,168**	**15,018,168**	15,768,281	15,768,281
	₱6,698,372,427	**₱6,974,011,958**	₱5,859,711,064	₱6,049,972,809

** Excludes cash on hand of ₱27,725,464 in 2012 and ₱13,098,956 in 2011.*
*** Net of unamortized discount and unearned income of ₱465,583,619 in 2012 and ₱5,807,737 in 2011.*
**** Excluding customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.*
***** Excluding accrued retirement .benefits of ₱22,169,104 in 2012 and ₱16,429,200 in 2011.*

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 prices used for financial assets held by the Group were the current bid prices.

Cash and Cash Equivalents, Receivables, 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 receivables, and accounts payable and other current liabilities, the carrying values of these financial instruments were assessed to approximate their fair values.

Installment Contracts Receivable
The fair value of installment contracts receivable approximates the carrying value as the interest rates they carry approximate the interest rates 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. Discount ranges from 1.01% to 5.83% in 2012 and 1.02% to 7.06% in 2011.

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

Bank Loans
The carrying value of the bank loans with variable interest rates approximates the 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 quoted AFS financial assets. As of December 31, 2012 and 2011, the fair values of these instruments are determined and disclosed using Level 1 inputs, which are quoted prices in active markets for identical assets. There were no transfers from Level 1, Level 2 and Level 3 fair value measurements in 2012, 2011 and 2010.

33. Financial Risk Management Objective and Policies

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

The main risks arising from the use of the financial instruments are interest rate risk, 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 risk management is to minimize the potential adverse effects of the unpredictability of financial markets on the Group's financial performance. The Board provides principles for overall risk management, as follows:

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

	2012						
	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	₱1,573,227,845	₱–	₱–	₱–	₱–	₱–	₱1,573,227,845
Liability							
Bank loans using:							
PHIREF rate	₱839,239,120	₱743,790,671	₱652,711,208	₱626,281,542	₱599,851,875	₱1,145,833,333	₱4,607,707,749
PDST-F rate	309,958,036	–	–	–	–	–	309,958,036
	₱1,149,197,156	₱743,790,671	₱652,711,208	₱626,281,542	₱599,851,875	₱1,145,833,333	₱4,917,665,785

	2012						
	Within 1 Year	**1 to 2 Years**	**2 to 3 Years**	**3 to 4 Years**	**4 to 5 Years**	**Over 5 Years**	**Total**
Bank Loan Interest Rates							
PHIREF	**PHIREF + 0.75%**	**PHIREF + 0.75%**	**PHIREF + 0.75%**	**PHIREF + 0.75%**	**PHIREF + 0.75%**	**PHIREF + 0.75%**	**PHIREF + 0.75%**
PDST-F	**PDST-F + 1.75%**	**PDST-F + 1.75%**	–	–	–	–	–

	2011						
	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	₱1,423,648,786	₱–	₱–	₱–	₱–	₱–	₱1,423,648,786
Liability							
Bank loans using:							
PHIREF rate	₱300,535,714	₱577,925,595	₱633,517,857	₱549,062,500	₱529,375,000	₱2,066,458,333	₱4,656,874,999
PDST-F rate	273,614,636	251,245,550	–	–	–	–	524,860,186
	₱574,150,350	₱829,171,145	₱633,517,857	₱549,062,500	₱529,375,000	₱2,066,458,333	₱5,181,735,185
Bank Loan Interest Rates							
PHIREF	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%	PHIREF + 0.75%
PDST-F	PDST-F + 1.75%	PDST-F + 1.75%	–	–	–	–	–

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 rates as it can cause a change in the amount of interest payments.

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

The following table represents the impact on the Group's income before income tax brought about by reasonably possible change in interest rates, with all other variables held constant, as of December 31 until its next financial reporting date:

	Change in Interest Rate	Effect on Income before Income Tax
2012	**Increase by 1.90%**	**(₱85,432,233)**
	Decrease by 1.90%	**85,432,233**
2011	Increase by 1.14%	(54,500,969)
	Decrease by 1.14%	54,500,969

There is no other effect on the Group's equity other than those already affecting consolidated 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$. However, the Group's management has assessed that the effect of reasonably possible change in exchange rates of US$ and HK$ are insignificant to the consolidated financial statements.

Equity Price Risk
Equity 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 values 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 losses because its counterparties failed to discharge their contractual obligations. The Group has no significant concentration on credit risk. Sales of residential condominium units that are on installment basis are supported by post-dated checks from the buyers. Titles to properties sold are not released unless full payment is received. In the case of leasing operation, tenants are subjected to credit evaluation and are required to put up security deposits and pay advance rentals, if necessary.

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

	2012	2011
Financial assets at FVPL	**₱32,275,696**	₱27,339,586
Loans and receivables:		
Cash and cash equivalents *	**1,566,727,845**	1,418,148,786
Cash in escrow	**55,066,771**	144,929,600
Receivables:		
Installment contracts receivable**	**397,091,493**	86,361,410
Rent	**95,230,392**	151,818,332
Related parties	**20,512,634**	56,298,502
Advances to officers and employees	**2,008,535**	1,483,525
Interest	**1,138,118**	1,095,099
Others	**63,669,495**	48,358,695
Refundable deposits	**42,955,708**	29,574,723
	2,244,400,991	1,938,068,672
AFS financial assets	**502,022,842**	500,912,842
	₱2,778,699,529	₱2,466,321,100

** Excludes cash on hand of ₱27,725,464 in 2012 and ₱13,098,956 in 2011.*
*** Net of unamortized discount and unearned income of ₱465,583,619 in 2012 and ₱5,807,737 in 2011.*

The net maximum exposure to credit risk for cash in bank, after taking into account insurance on bank deposits, amounted to ₱74,293,612 in 2012 and ₱73,035,734 in 2011.

The following tables provide information regarding the credit risk exposure of the Group by classifying its financial assets according to the credit ratings of the debtors as of:

	2012			
	Neither Past Due nor Impaired			
	Non-Investment Grade: Satisfactory	**Non-Investment Grade: Unsatisfactory**	**Past Due and Impaired**	**Total**
Financial assets at FVPL	**₱32,275,696**	**₱–**	**₱–**	**₱32,275,696**
Loans and receivables:				
Cash and cash equivalents*	**1,566,727,845**	**–**	**–**	**1,566,727,845**
Cash in escrow	**55,066,771**	**–**	**–**	**55,066,771**
Receivables:		**–**	**–**	
Installment contracts receivable**	**397,091,493**	**–**	**–**	**397,091,493**
Rent	**95,230,392**	**–**	**–**	**95,230,392**
Related parties	**20,512,634**	**–**	**–**	**20,512,634**
Advances to officers and employees	**2,008,535**	**–**	**–**	**2,008,535**
Interest	**1,138,118**	**–**	**–**	**1,138,118**
Others	**63,669,495**	**–**	**7,074,077**	**70,743,572**
Refundable deposits	**42,955,708**	**–**	**–**	**42,955,708**
	2,244,400,991	**–**	**7,074,077**	**2,251,475,068**
AFS financial assets	**502,022,842**	**–**	**–**	**502,022,842**
	₱2,778,699,529	**₱–**	**₱7,074,077**	**₱2,785,773,606**

** Excludes cash on hand of ₱27,725,464 and bank deposit insurance.*
*** Net of unamortized discount and unearned income of ₱465,583,619.*

	2011			
	Neither Past Due nor Impaired			
	Non-Investment Grade: Satisfactory	Non-Investment Grade: Unsatisfactory	Past Due and Impaired	Total
Financial assets at FVPL	₱27,339,586	₱–	₱–	₱27,339,586
Loans and receivables:				
Cash and cash equivalents*	1,418,148,786	–	–	1,418,148,786
Cash in escrow	144,929,600	–	–	144,929,600
Receivables:		–	–	
Installment contracts receivable**	86,361,410	–	–	86,361,410
Rent	151,818,332	–	–	151,818,332
Related parties	56,298,502	–	–	56,298,502
Advances to officers and employees	1,483,525	–	–	1,483,525
Interest	1,095,099	–	–	1,095,099
Others	48,358,695	–	5,727,607	54,086,302
Refundable deposits	29,574,723	–	–	29,574,723
	1,938,068,672	–	5,727,607	1,943,796,279
AFS financial assets	500,912,842	–	–	500,912,842
	₱2,466,321,100	₱–	₱5,727,607	₱2,472,048,707

** Excludes cash on hand of ₱13,098,956 and bank deposit insurance.*
*** Net of unamortized discount and unearned income of ₱5,807,737.*

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, financial assets at FVPL and AFS financial assets – based on the nature of the counterparties 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 were 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 have been provided with allowance for impairment losses.

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

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

	2012				
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total**
Financial Assets					
Financial assets at FVPL	**₱32,275,696**	**₱–**	**₱–**	**₱–**	**₱32,275,696**
Loans and receivables:					
Cash and cash equivalents*	**1,573,227,845**	**–**	**–**	**–**	**1,573,227,845**
Cash in escrow	**55,066,771**	**–**	**–**	**–**	**55,066,771**
Receivables:					
Installment contracts receivable	**1,529,622,655**	**3,205,977,257**		**–**	**4,735,599,912**
Rent	**95,230,392**	**–**	**–**	**–**	**95,230,392**
Related parties	**20,512,634**	**–**	**–**	**–**	**20,512,634**
Advances to officers and employees	**2,008,535**	**–**	**–**	**–**	**2,008,535**
Interest	**1,138,118**	**–**	**–**	**–**	**1,138,118**
Others	**63,669,495**	**–**	**–**	**–**	**63,669,495**
Refundable deposits	**–**	**42,955,708**	**–**	**–**	**42,955,708**
	3,340,476,445	**3,248,932,965**	**–**	**–**	**6,589,409,410**
AFS financial assets	**502,022,842**	**–**	**–**	**–**	**502,022,842**
	₱3,874,774,983	**₱3,248,932,965**	**₱–**	**₱–**	**₱7,123,707,948**
Other Financial Liabilities					
Accounts payable and other current liabilities**	**₱1,399,465,200**	**₱–**	**₱–**	**₱–**	**₱1,399,465,200**
Bank loans	**1,337,045,026**	**1,396,501,880**	**1,226,133,417**	**1,145,833,333**	**5,105,513,656**
Deposits from tenants	**555,300,209**	**183,025,209**	**29,983,140**	**1,192,069**	**769,500,627**
Dividends payable	**17,955,099**	**–**	**–**	**–**	**17,955,099**
Accrued employee benefits***	**15,018,168**	**–**	**–**	**–**	**15,018,168**
	₱3,324,783,702	**₱1,579,527,089**	**₱1,256,116,557**	**₱1,147,025,402**	**₱7,307,452,750**

** Excludes cash on hand of ₱27,725,464.*
*** Excluding customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.*
**** Excluding accrued retirement .benefits of ₱22,169,104.*

	2011				
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Financial Assets					
Financial assets at FVPL	₱27,339,586	₱–	₱–	₱–	₱27,339,586
Loans and receivables:					
Cash and cash equivalents*	1,423,648,786	–	–	–	1,423,648,786
Cash in escrow	144,929,600	–	–	–	144,929,600
Receivables:					
Rent	151,818,332	–	–	–	151,818,332
Installment contracts receivable	976,027,156	2,754,426,881	–	–	3,730,454,037
Related parties	56,298,502	–	–	–	56,298,502
Advances to officers and employees	1,483,525	–	–	–	1,483,525
Interest	1,095,099	–	–	–	1,095,099
Others	48,358,695	–	–	–	48,358,695
Refundable deposits	–	29,574,723	–	–	29,574,723
	2,803,659,695	2,784,001,604	–	–	5,587,661,299
AFS financial assets	500,912,842	–	–	–	500,912,842
	₱3,331,912,123	₱2,784,001,604	₱–	₱–	₱6,115,913,727
Other Financial Liabilities					
Accounts payable and other current liabilities*	₱914,939,484	₱–	₱–	₱–	₱914,939,484
Bank loans	505,517,548	1,053,170,281	327,285,875	3,295,761,481	5,181,735,185
Deposits from tenants	333,170,829	271,731,327	31,185,769	–	636,087,925
Dividends payable	15,737,613	–	–	–	15,737,613
	₱1,769,365,474	₱1,324,901,608	₱358,471,644	₱3,295,761,481	₱6,748,500,207

** Excludes cash on hand of ₱13,098,956.*
*** Excluding customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.*
**** Excluding accrued retirement benefits of ₱16,429,200.*

Investment properties amounting to ₱8,127,804,235 and ₱8,061,507,313 as of December 31, 2012 and 2011, respectively, were used as collaterals of KSA's bank loans.

34. Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes in 2012, 2011 and 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, accounts payable and other current liabilities, bank loans and deposits from tenants, less cash and cash equivalents. Capital pertains to capital stock, additional paid in capital and retained earnings.

	2012	2011
Net Debt		
Accounts payable and other current liabilities	**₱1,752,258,364**	₱2,120,799,620
Bank loans	**4,496,433,333**	4,303,419,044
Deposits from tenants	**769,500,627**	609,846,642
Total	**7,018,192,324**	7,034,065,306
Less cash and cash equivalents	**1,600,953,309**	1,436,747,742
	5,417,239,015	5,597,317,564

(forward)

	2012	2011
Capital		
Capital stock	**₱4,764,058,982**	₱4,764,058,982
APIC	**834,439,607**	834,439,607
Retained earnings	**14,654,957,228**	13,398,957,437
	20,253,455,817	18,997,456,026
	₱25,670,694,832	₱24,594,773,590
Gearing Ratio	**21.10%**	22.76%

35. **Acronyms and Abbreviations**

The following are the acronyms and abbreviations used in the consolidated financial statements with the meanings as specified below:

Acronyms/ Abbreviations		Meaning
AFS	–	available-for-sale
APCC	–	Asian Plaza Condominium Corporation
API	–	Asian Plaza, Inc.
APIC	–	additional paid-in capital
BSDC	–	Brown Swallow Development Corporation
BVI	–	British Virgin Islands
CGU	–	cash generating unit
CIAC	–	Construction Industry Arbitration Commission
CPI	–	Clavall Properties, Inc.
CRC	–	Clavall Realty Corporation
CWT	–	creditable withholding tax
EA	–	escrow agreement
EIR	–	effective interest rate
ELHI	–	EPHI Logistics Holdings, Inc.
EUL	–	estimated useful lives
FBSHI	–	Fort Bonifacio Shangri-la Hotel, Inc.
FRSC	–	Financial Reporting Standards Council
ESHRI	–	EDSA Shangri-La Hotel and Resort, Inc.
FVO	–	fair value option
FVPL	–	fair value through profit or loss
GFA	–	gross floor areas
GMRI	–	Green Mangrove Realty, Inc.
HK$	–	Hong Kong Dollar
HTM	–	held-to-maturity
GFA	–	gross floor areas
GMRI	–	Green Mangrove Realty, Inc.
HK$	–	Hong Kong Dollar
HTM	–	held-to-maturity
IASB	–	International Accounting Standards Board
IFRIC	–	International Financial Reporting Interpretations Committee
IPPI	–	Ivory Post Properties, Inc.
ISPI	–	Ideal Sites and Properties, Inc.
JCEs	–	jointly-controlled entities
KMSC	–	KPPI Management Services Corporation

(forward)

Acronyms/ Abbreviations		Meaning
KRC	–	KPPI Realty Corporation
KSA	–	KSA Realty Corporation
KPPI	–	Kuok Philippine Properties, Inc.
MART1	–	the average of the top 60% of bids by tenor for government securities submitted by Fixing Banks.
MBPI	–	Martin B. Properties, Inc.
MBRI	–	Mactan Beachfront Resources, Inc.
MCIT	–	minimum corporate income tax
MOA	–	memorandum of agreement
NOLCO	–	net operating loss carryover
NCI	–	non-controlling interest
NCRI	–	New Contour Realty, Inc.
NRV	–	net realizable value
OCI	–	other comprehensive income
OSD	–	optional standard deduction
OSP	–	One Shangri-La Place Project
PAS	–	Philippine Accounting Standard
PDST-F	–	Philippine Dealing System Treasury Fixing
PFRS	–	Philippine Financial Reporting Standards
PHIREF	–	Philippine Reference
POC	–	percentage of completion
PSA	–	Philippine Standards in Auditing
PSE	–	Philippine Stock Exchange
PSI	–	Perfect Sites, Inc.
RA	–	Republic Act
RAAC	–	Royal Asia Appraisal Corporation
RCIT	–	regular corporate income tax
RTC	–	Regional Trial Court
SEC	–	Securities and Exchange Commission
SFBHI	–	Shang Fort Bonifacio Holdings, Inc.
SGCHI	–	Shang Global City Holdings, Inc.
SHIL	–	Silver Hero Investments Limited
SLPC	–	Shangri-La Plaza Corporation
SLPI	–	Sky Leisure Properties, Inc.
SPDI	–	Shang Property Developers, Inc.
SPMSI	–	Shang Property Management Services, Inc.
SPRC	–	Shang Properties Realty Corporation
SPSI	–	SPI Parking Services, Inc.
SSP	–	Shang Salcedo Place
TCT	–	transfer certificates of title
TEC	–	The Enterprise Center
TECCC	–	The Enterprise Center Condominium Corporation
TSFSP	–	The St. Francis Shangri-La Place Project
TSFSPCC	–	The St. Francis Shangri-la Place Condominium Corporation
TSGT	–	The Shang Grand Tower Project
TSGTCC	–	The Shang Grand Tower Condominium Corporation
US$	–	United States Dollar
VAT	–	value-added tax
US$	–	United States Dollar
VAT	–	value-added tax

SHANGRI-LA PLAZA
Tel: (63 2) 370-2500
Fax: (63 2) 633-4474 or 633-4492
www.shangrila-plaza.com
EDSA corner Shaw Boulevard
Mandaluyong City 1550

THE ENTERPRISE CENTER
Tel: (63 2) 752-1000
Fax: (63 2) 886-5001
www.theenterprisecenter.com.ph
6766 Ayala Avenue corner Paseo de Roxas
Makati City 1212

THE SHANG GRAND TOWER
Tel: (63 2) 909-5000 to 04
Fax: (63 2) 909-5006
www.theshanggrandtower.com
98 Perea Street corner dela Rosa Street., Legaspi Village
Makati City 1229

THE ST. FRANCIS SHANGRI-LA PLACE
Tel: 63 2) 239-2517
Fax: (63 2) 570-6981
www.thestfrancistowers.com
Internal Road corner St. Francis Street
Mandaluyong City 1550

ONE SHANGRI-LA PLACE
Tel: (63 2) 370-2600
Fax: (63 2) 370-2626
Show Suite and Sales Office
Level 1, Shangri-La Plaza
EDSA corner Shaw Boulevard
Mandaluyong City 1550
sales@oneshangri-laplace.com
www.oneshangri-laplace.com

SHANG SALCEDO PLACE
Tel: (63 2) 519-0000 or 519-8080
Fax: (63 2) 519-9111
Show Suite and Sales Office
Level 3, Tower 1 The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City 1212
sales@shangsalcedoplace.com
www.shangsalcedoplace.com

PRINCIPAL OFFICE
Tel: (63 2) 370-2700
Fax: (63 2) 370-2777
Level 5, Shangri-La Plaza
EDSA corner Shaw Boulevard
Mandaluyong City 1550
Philippines
info@shangproperties.com
www.shangproperties.com

PRINCIPAL BANKERS
Bank of the Philippine Islands
Metropolitan Bank and Trust Company
Banco De Oro

AUDITORS
Sycip Gorres Velayo & Co.

LEGAL COUNSELS
Abello Concepcion Regala & Cruz
Romulo, Mabanta, Buenaventura, Sayoc & Delos Angeles

PROPERTY VALUER
Royal Asia Appraisal Corporation

STOCK TRANSFER AGENT
Rizal Commercial Banking Corp.
Ground Floor, GPL Building
221 Sen. Gil Puyat Avenue,
Makati City, Metro Manila

KEY DATES
- Regular Board Meeting: Quarterly
- Annual Stockholder's Meeting: Any day in June of each year
- Fiscal Year: 1 January to 31 December

SHANG
PROPERTIES®

Level 5, Shangri-La Plaza, EDSA corner Shaw Boulevard
Mandaluyong City 1550 Philippines
Tel: (63 2) 370-2700 | Fax: (63 2) 370-2777
info@shangproperties.com | www. shangproperties.com