

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

<b>Mr. Jeffrey C. Lim</b>
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(Contact Person)

<b>831-1000</b>
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(Company Telephone Number)

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Month Day  
(Fiscal Year)

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Month Day  
(Annual Meeting)

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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[ ] Preliminary Information Statement

[  ] Definitive Information Statement

2. Name of Registrant as specified in its charter **SM PRIME HOLDINGS, INC.**

3. **PHILIPPINES**

Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number **AS094-000088**

5. BIR Tax Identification Code **003-058-789**

6. **SM Corporate Offices, Bldg. A, 1000 JW Diokno Boulevard, Mall of Asia Complex,  
Pasay City** **1300**

Address of principal office

Postal Code

7. Registrant's telephone number, including area code **(632) 831-1000**

8. **April 24, 2008, 2:30 P.M., SMX Convention Center, Seashell Drive, J.W. Diokno  
Boulevard, Mall of Asia Complex, Pasay City 1300**

Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders:

**March 30, 2008**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class

Number of Shares of Common Stock

Outstanding or Amount of Debt Outstanding

**Common shares**

**12,416,437,157**

11. Are any or all of registrant's securities listed in a Stock Exchange?

Yes  No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**Philippine Stock Exchange**

**Common shares**

<b>PART I.</b>
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**INFORMATION REQUIRED IN INFORMATION STATEMENT****A. BUSINESS AND GENERAL INFORMATION****ITEM 1. Date, Time And Place Of Meeting Of Security Holders**

The annual stockholders' meeting of SM Prime Holdings, Inc. is scheduled to be held on April 24, 2008 at 2:30 p.m. at the SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300. The complete mailing address of the principal office of the registrant is SM Corporate Offices, Building A, 1000 JW Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.

The approximate date on which the Information Statement will be sent or given to the stockholders is on March 30, 2008.

**Statement that proxies are not solicited**

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.**

**Voting Securities**

The record date for purposes of determining the stockholders entitled to vote is March 25, 2008. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 12,416,437,157 shares (net of 18,857,000 treasury shares). Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

**ITEM 2. Dissenters' Right of Appraisal**

A stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- (c) In case of merger or consolidation.

A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

- (a) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30 day period shall be deemed a waiver on his appraisal right;
- (b) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and

- (c) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation

There are no matters to be discussed in the Annual Stockholders' Meeting which will give rise to the exercise of the dissenter's right of appraisal.

**ITEM 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

There is no matter to be acted upon in which any Director or Executive Officer is involved or had a direct, indirect or substantial interest. No Director has informed the Company of his opposition to any matter to be acted upon.

**B. CONTROL AND COMPENSATION INFORMATION**

**ITEM 4. Voting Securities And Principal Holders Thereof**

(1) Number of Common Shares Outstanding

The Company has 12,416,437,157 (net of 18,857,000 treasury shares) common shares outstanding as of January 31, 2008. Each share is entitled to one vote. All stockholders of record as 25 March 2008 are entitled to notice of and to vote at the Annual Stockholders' Meeting.

(2) Manner of Voting

Each share is entitled to one vote. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of share he owns entitles him, for as many persons as are to be elected as Directors, or he may give to one candidate as many votes as, the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected.

(3) Security Ownership of Certain Record and Beneficial Owners as of January 31, 2008

The following are the owners of SMPHI's common stock in excess of 5% of total outstanding shares:

Title of Securities	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	<b>ShoeMart, Inc., (Related Company)<sup>1</sup></b> SM Corporate Offices, Bldg D, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City	<b>ShoeMart, Inc.<sup>2</sup></b>	Filipino	5,938,801,649 (b)	47.76

-do-	<b>SM Investments Corporation (SMIC) (Parent Company)</b> <sup>3</sup> SM Corporate Offices, Bldg A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City	<b>SMIC</b> <sup>4</sup>	Filipino	2,668,842,122 (b)	21.46
-do-	<b>PCD Nominee Corp.</b> <sup>5</sup> MSE Bldg., Ayala Ave., Makati City	<b>PCD Participants</b> <sup>5</sup> , <sup>6</sup>	Filipino - 2.41% Non Filipino - 27.48%	3,716,625,106 (r)	29.89

<sup>1.</sup> The following are the individuals holding the direct beneficial ownership of Shoemart, Inc.: Henry Sy, Sr.-4.79%, Felicidad T. Sy, Teresita T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy – 4.72% each.

<sup>2.</sup> Henry Sy, Sr. and Teresita T. Sy are the Chairman and President of ShoeMart, Inc., respectively.

<sup>3.</sup> The following are the individuals holding the direct beneficial ownership of SMIC.: Henry Sy, Sr.-17.8%, Felicidad T. Sy-10.62%, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy-10.23% each, Harley T. Sy-10.3%, Teresita T. Sy-10.16% and Elizabeth Sy - .07%.

<sup>4.</sup> Henry Sy, Sr. is the Chairman of SMIC and Teresita T. Sy and Henry Sy, Jr. are the Vice Chairmen of SMIC.

<sup>5.</sup> The PCD participants have the power to decide how their shares are to be voted. There are no other individual shareholders which own more than 5% of the Company.

<sup>6.</sup> The PCD is not related to the Company.

### (3) Security Ownership of Management as of January 31, 2008

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship	Amount and Nature of Direct Beneficial Ownership	Class of Securities	Percent of Class
Common	Henry Sy, Sr.	Filipino	4,394,894 (b)	Voting	0.04
-do-	Jose L. Cuisia, Jr.	Filipino	89,651 (b)	Voting	0.00
-do-	Senen T. Mendiola -	Filipino	638,575 (b)	Voting	0.01
-do-	Teresita T. Sy	Filipino	1,082,322 (b)	Voting	0.01
-do-	Henry T. Sy, Jr.	Filipino	12,522 (b)	Voting	0.00
-do-	Hans T. Sy	Filipino	12,522 (b)	Voting	0.00
-do-	Herbert T. Sy	Filipino	388,103 (b)	Voting	0.00
-do-	Elizabeth T. Sy	Filipino	1,626,488 (b)	Voting	0.01
	All directors and executive officers as a group		8,245,077	Voting	0.07

There are no persons holding more than 5% of a class under a voting trust or any similar agreements as of balance sheet date.

There are no existing or planned stock warrant offerings. There are no arrangements which may result in a change in control of the Company.

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

## ITEM 5. Directors and Executive Officers of the Registrant

### DIRECTORS AND EXECUTIVE OFFICERS

<u>Office</u>	<u>Name</u>	<u>Citizenship</u>	<u>Age</u>
Chairman	Henry Sy, Sr.	Filipino	83
Vice Chairman	Jose L. Cuisia, Jr.	Filipino	64
Director and President	Hans T. Sy	Filipino	52
Director	Senen T. Mendiola	Filipino	81
Director	Teresita T. Sy	Filipino	57
Director	Henry T. Sy, Jr.	Filipino	54
Director	Herbert T. Sy	Filipino	51
Executive Vice President and Chief Finance Officer	Jeffrey C. Lim	Filipino	46
Senior Vice President – Legal and Corporate Affairs and Assistant Corporate Secretary	Corazon I. Morando	Filipino	66
Senior Vice President – Marketing	Elizabeth T. Sy	Filipino	55
Vice President – Market Research and Planning	Ronald G. Tumao	Filipino	49
Vice President – Internal Audit Head	Christopher S. Bautista	Filipino	48
Vice President – Information Technology	Kelsey Hartigan R. Go	Filipino	42
Vice President – Finance	Diana R. Dionisio	Filipino	35
Corporate Secretary	Emmanuel C. Paras	Filipino	58

#### Board of Directors

**Henry Sy, Sr.** has served as Chairman of the Board of Directors of SM Prime since 1994. He is the founder of the SM Group and is currently Chairman Emeritus of Banco de Oro Unibank, Inc., Honorary Chairman of China Banking Corporation, Chairman of ShoeMart Inc., SM Investments Corp., Highlands Prime, Inc. and SM Development Corp. He opened the first ShoeMart store in 1958 and has been at the fore in SM Group’s diversification into the commercial centers, retail merchandising, financial services, and real estate development and tourism businesses.

**Jose L. Cuisia, Jr.\*** has served as Vice Chairman of the Board of Directors of SM Prime since 1994. He is the President and Chief Executive Officer of the Philippine American Life Insurance Company, and he is concurrently Chairman of the Board of various companies within the Philamlife Group. He is also a Director of several PHINMA-managed companies. Previously, he served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993 and Administrator of the Social Security System from 1986 to 1990.

*\* Independent director – the Company has complied with the Guidelines set forth by SRC Rule 38, as amended, regarding the Nomination and Election of Independent Director. The Company’s By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

**Hans T. Sy**, President, has served as Director since 1994 and was Senior Vice President for Operations. He holds many key positions in the SM Group. He is First Executive Vice President of SM Investments Corporation, Executive Vice President of Shoemart, Inc. and Vice Chairman and Director of China Banking Corporation, Director of Pico de Loro Beach and Country Club Inc., Highlands Prime, Inc. and

Belle Corporation. He also holds board positions in several companies within the Group. He is a mechanical engineering graduate of De La Salle University.

**Senen Mendiola** has served as Director since 1994. He is Vice Chairman of a number of SM Group companies and holds a number of board positions within the Group. A graduate of the San Beda College with a Bachelor's degree in commerce, he has worked closely with Mr. Henry Sy, Sr. for more than four decades.

**Teresita T. Sy** has served as Director since 1994. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairman of Banco de Oro Unibank, Inc., Vice Chairman of SM Investments Corporation and President of ShoeMart Inc. She also holds board positions in several companies within the SM Group.

**Henry Sy, Jr.** has served as Director since 1994. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. At present, he is also Vice Chairman of SM Investments Corporation, SM Development Corporation and Highlands Prime, Inc. and Director in Banco de Oro Unibank, Inc. and Pico de Loro Beach and Country Club Inc. He graduated with a management degree from De La Salle University.

**Herbert T. Sy** has served as Director since 1994. He holds a Bachelor's degree in management from De La Salle University. At present, he is First Executive Vice President of SM Investments Corporation, and Director of Shoemart, Inc. and China Banking Corporation. He is actively involved in the SM Group's supermarket and hypermarket businesses.

Members of the Board of Directors are given a standard per diem of P10,000 per meeting, except for the Chairman and Vice Chairman which are given P20,000 per meeting.

### **Senior Management**

**Jeffrey C. Lim** is the Executive Vice President and the Chief Finance Officer. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company, he worked for a multi-national company and SyCip Gorres Velayo & Co.

**Elizabeth T. Sy**, Senior Vice President for Marketing, is also involved in investor relations of the Company. She is a Director of SM Development Corporation and Pico de Loro Beach and Country Club Inc. and Treasurer of SM Investments Corporation. She is also actively involved in the Group's other tourism and leisure business endeavors, overseeing operations as well as other marketing and real estate activities.

**Corazon I. Morando** is the Senior Vice President for Legal and Corporate Affairs and Assistant Corporate Secretary of the Company and SM Investments Corporation. She is also Corporate Secretary of Highlands Prime, Inc and China Banking Corporation. She holds a Bachelor of Law degree from the University of the Philippines and formerly the Director of the Corporate and Legal Department of the Securities and Exchange Commission in the Philippines.

**Ronald G. Tumao** is the Vice President for Market Research & Planning. He graduated from De La Salle University with a degree in BSC - Management of Financial Institutions. He later took his MBA at the Ateneo Graduate School in Makati City. He has over 10 years of experience in banking and finance

and more than 10 years experience in brand management and consumer marketing. He is in charge of property acquisition for SM. He has been with the Company for 7 years.

**Christopher S. Bautista** is the Vice President for Internal Audit (Chief Audit Executive). He was formerly the Chief Finance Officer of a large palm oil manufacturer based in Jakarta, Indonesia and was a partner (principal) for several years of an audit and management consulting firm based also in Jakarta. He started his professional career as staff auditor of SyCip, Gorres, Velayo & Co. He has been with the Company for 10 years.

**Kelsey Hartigan Go** is the Vice-President for Information Technology. He has been with the Company for 10 years. He holds a Bachelor's Degree in Electronics & Communications Engineering and a Masters of Science Degree in Computer Science, both from the De La Salle University, Manila. He was previously a professor of a university in the Philippines and was concurrently the Director of the Information Systems Center of the same university.

**Diana R. Dionisio** is the Vice President for Finance. She holds a Bachelor's degree in Accountancy from the University of Santo Tomas. She has been with the company for 8 years. Prior to joining the company, she was the accounting manager of a real property company. She started her professional career as staff auditor of Sycip, Gorres, Velayo & Co.

**Emmanuel C. Paras**, is the Corporate Secretary of the Company and other companies in the SM Group. He is a Bachelor of Law graduate of the Ateneo de Manila and a partner of the SyCip Salazar Hernandez and Gatmaitan Law Offices.

All the Directors and executive officers of the Company, except those otherwise stated, have held their positions since the Company started operations in 1994.

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified. The same set of directors will be nominated in the coming regular annual stockholders' meeting.

Aside from the Directors and Executive Officers enumerated above, there are no other employees expected to hold significant executive/officer position in the Company.

The following are directorships held by Directors and Executive Officers in other reporting companies at least, in the last five years:

***Henry Sy, Sr.***

<i>Name of Corporation</i>	<i>Position</i>
SM Investments Corporation.....	Chairman
Highlands Prime, Inc.....	Chairman
SM Development Corporation.....	Chairman
China Banking Corporation..	Honorary Chairman
Banco de Oro Unibank, Inc.....	Chairman Emeritus



**Jose L. Cuisia, Jr.**

<b><i>Name of Corporation</i></b>	<b><i>Position</i></b>
The Philippine American Life & General Co. (Philamlife) .....	President/ CEO/ Director
Philam Care Health Systems, Inc.....	Chairman
Philam Asset Management, Inc.....	Chairman
Philam Properties Corporation.....	Chairman
Philam Equitable Life Assurance Co... ..	Chairman
Philam Savings Bank... ..	Vice Chairman
Bacnotan Consolidated Industries, Inc... ..	Director
Holcim Philippines, Inc.... ..	Director
Investment Capital Corporation of the Philippines.....	Director
Union Galvasteel Corporation... ..	Director
Bauang Private Power Corporation... ..	Director

**Henry T. Sy, Jr.**

<b><i>Name of Corporation</i></b>	<b><i>Position</i></b>
SM Development Corporation .....	Director/ Vice Chairman/ Chief Executive Officer
Highlands Prime, Inc.....	Director/ Vice Chairman
Belle Corporation.....	Director/ Vice Chairman
SM Investments Corporation.. ..	Director/Vice Chairman
Pico de Loro Beach and Country Club Inc.... ..	Director
Banco de Oro Unibank, Inc.....	Director

**Teresita T. Sy**

<b><i>Name of Corporation</i></b>	<b><i>Position</i></b>
Banco de Oro Unibank, Inc. ....	Chairman
SM Investments Corp.....	Director/Vice Chairman

***Hans T. Sy***

<b><i>Name of Corporation</i></b>	<b><i>Position</i></b>
China Banking Corporation .....	Director/ Vice Chairman
Belle Corporation.....	Director
Highlands Prime, Inc.....	Director
Pico de Loro Beach and Country Club Inc... ..	Director
SM Investments Corporation. ....	First Executive Vice President

***Herbert T. Sy***

<b><i>Name of Corporation</i></b>	<b><i>Position</i></b>
China Banking Corporation .....	Director
SM Investments Corporation .....	First Executive Vice President

***Elizabeth T. Sy***

<b><i>Name of Corporation</i></b>	<b><i>Position</i></b>
SM Development Corporation.....	Director
Pico de Loro Beach and Country Club Inc... ..	Director

***Involvement in Legal Proceedings***

The Company is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director or any member of senior management of the Company:

- (a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (c) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

- (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.
- (e) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

The members of the Audit and Corporate Governance Committee are:

Jose L. Cuisia, Jr.	-	Chairman (Independent Director)
Teresita T. Sy	-	Member
Senen T. Mendiola	-	Member
Jose T. Sio	-	Member
Serafin U. Salvador	-	Member
Corazon I. Morando	-	Member

The members of the Nomination Committee are:

Henry Sy, Sr.	-	Chairman
Jose L. Cuisia, Jr.	-	Member (Independent Director)
Herbert T. Sy	-	Member
Corazon I. Morando	-	Member
Senen T. Mendiola	-	Member

The Nomination Committee created by the Board under its Corporate Governance Manual nominated the following for re-election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

Henry Sy, Sr.  
 Jose L. Cuisia, Jr.  
 Teresita T. Sy  
 Henry T. Sy, Jr.  
 Hans T. Sy  
 Herbert T. Sy  
 Senen T. Mendiola

Mr. Jeffrey C. Lim nominated to the Board for inclusion in the Final List of Candidates for Independent Director the following stockholder:

Jose L. Cuisia, Jr.

Mr. Jeffrey C. Lim is not related to Mr. Jose L. Cuisia.

The following will be nominated as officers at the Organizational meeting of the Board of Directors:

Henry Sy, Sr.	-	Chairman
Jose L. Cuisia, Jr.	-	Vice-Chairman
Hans T. Sy	-	President
Jeffrey C. Lim	-	Executive Vice President
Corazon I. Morando	-	Assistant Corporate Secretary and Consultant – Corporate Legal

Elizabeth T. Sy	-	Senior Vice President - Marketing
Ronald G. Tumao	-	Vice President – Market Research and Planning
Christopher S. Bautista	-	Vice President - Internal Audit Head
Kelsey Hartigan R. Go	-	Vice President - Information Technology
Diane R. Dionisio	-	Vice President - Finance
Emmanuel C. Paras	-	Corporate Secretary

### **Family Relationships**

Mr. Henry Sy, Sr. is the father of Teresita Sy, Elizabeth Sy, Henry Sy, Jr., Hans Sy, Herbert Sy and Harley Sy. All other directors and officers are not related either by consanguinity or affinity.

### **ITEM 6. Compensation of Directors and Executive Officers**

Aside from regular standard per diems, all directors do not receive regular annual salaries from the Company. The following are the key executive officers:

<u>Name and Position</u>	<u>Salary</u>	<u>Bonus</u>
1. Hans T. Sy President		
2. Jeffrey C. Lim Executive Vice-President		
3. Corazon I. Morando SVP – Legal and Asst. Corporate Secretary		
4. Elizabeth T. Sy SVP - Marketing		
5. Ronald G. Tumao VP – Market Research and Planning		
6. Christopher S. Bautista VP – Internal Audit Head		
7. Kelsey Hartigan R. Go VP – Information Technology		
8. Diana R. Dionisio VP – Finance		

#### **Summary Compensation Table**

Aggregate compensation paid to all officers and directors as a group

<i>(estimate)</i>	Year 2008	₱17,000,000	₱32,500,000
	2007	16,000,000	32,500,000
	2006	12,650,000	22,800,000
	2005	9,600,000	18,200,000

Certain officers of the Company are seconded from SM Investments Corporation.

There are no actions to be taken with regard to election, any bonus or profit-sharing, change in pension/retirement plan, granting of or extension of any options, warrants or rights to purchase any securities.

## **ITEM 7. Certain Relationships and Related Transactions**

The Company, in the regular course of trade or business, enters into transactions with affiliates/ related companies principally consisting of leasing agreements, management fees and cash placements. Generally, leasing and management agreements are renewed on an annual basis and are made at normal market prices. In addition, the Company also has outstanding borrowings/ placements from/ to related banks.

There are no other transactions undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or to be involved or had or will have a direct or indirect material interest.

Please refer to Note 19 of the attached 2007 consolidated financial statements.

## **ITEM 8. Independent Public Accountants**

Sycip, Gorres, Velayo & Company is the external auditor for the current year. The same external auditor will be recommended for re-appointment at the scheduled annual stockholders' meeting. Representatives of the said firm are expected to be present at the stockholders' meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to SRC Rule 68.1 (Qualification and Reports of Independent Auditors), the Company engaged Ms. Melinda G. Manto of SGV & Co starting year 2006. Previously, the Company engaged Mr. Joel M. Sebastian of SGV & Co for the examination of the Company's financial statements from 2001 up to 2005.

The Company and its subsidiaries paid SGV & Co P1.5 million and P1.2 million for external audit services for the years 2007 and 2006, respectively. There were no other professional services rendered by SGV & Co during the period. Tax consultancy services are secured from other entities other than the external auditor.

The Audit Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The BOD and the stockholders approve the Audit Committee's recommendation.

## **ITEM 9. Employee Compensation Plans**

There are no existing or planned stock options.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **ITEM 10. Authorization or Issuance of Securities Other Than for Exchange**

- NA -

## **D. FINANCIAL AND OTHER INFORMATION**

## ITEM 11. Financial Statements

The Company's consolidated financial statements for the years ended December 31, 2007, 2006 and 2005 are incorporated herein by reference.

### **Brief Description Of The General Nature And Scope Of The Registrant's Business And Its Subsidiaries**

SM Prime Holdings, Inc. ("SMPHI" or the "Company") was incorporated in the Philippines on January 6, 1994 to develop, conduct, operate and maintain the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. The Company currently has 30 SM Supermalls.

The subsidiaries of the Company follow:

Company	Date and Place of Incorporation	Percentage of Ownership	Malls Owned
First Asia Realty Development Corporation (FARDC)	September 7, 1987, Philippines	54.37	SM Megamall
Premier Central, Inc.	March 16, 1998, Philippines	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	March 25, 1998, Philippines	100.00	SM City Dasmariñas
Premier Southern Corp. (PSC)	April 7, 1998, Philippines	100.00	SM City Batangas and SM City Lipa
San Lázaro Holdings Corporation	March 7, 2001, Philippines	100.00	-na-
First Leisure Ventures Group, Inc.	March 28, 2007, Philippines	50%	San Miguel by the Bay

All the malls are under SMPHI except for the 5 malls which are under the subsidiaries mentioned in the above table. The San Miguel by the Bay is an expansion of the Mall of Asia shopping mall.

### **Management's Discussion and Analysis or Plan of Operation**

#### **2007**

Financial and Operational Highlights  
(in Million Pesos, except for financial ratios)

	<b>Twelve months ended Dec 31</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>
Profit & Loss Data			
Revenues	15,350	13,222	16%
Operating Expenses	6,621	5,565	19%
Operating Income	8,728	7,657	14%
Net Income	5,975	5,449	10%
EBITDA	10,989	9,444	16%

	<b>Dec 31</b>	<b>Dec 31</b>	
	<b>2007</b>	<b>2006</b>	<b>% Change</b>
<b>Balance Sheet Data</b>			
Total Assets	67,434	70,792	-5%
Total Debt	17,196	25,873	-34%
Net Debt	12,713	12,727	0%
Total Stockholders' Equity	38,858	35,672	9%
<b>Financial Ratios</b>			
Fixed Assets to Total Assets	0.85	0.73	
Stockholders' Equity to Total Assets	0.58	0.50	
Current Ratio	1.24	1.03	
Debt to Equity	0.31 : 0.69	0.42 : 0.58	
Net Debt to Equity	0.25 : 0.75	0.26 : 0.74	
Return on Equity	0.15	0.15	
Debt to EBITDA	1.56	2.74	
EBITDA to Interest Expense	16.79	12.37	
Operating Income to Revenues	0.57	0.58	
EBITDA Margin	0.72	0.71	
Net Income to Revenues	0.39	0.41	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts 16% increase in gross revenues for the year ended December 31, 2007 to P15.35 billion from P13.22 billion in the year 2006. Rental revenues remain the largest portion, with a significant growth of 17% amounting to P12.81 billion from last year's P10.97 billion. This is largely due to rentals from new SM Supermalls opened in 2006 and 2007, namely, SM City Sta. Rosa, SM City Clark, SM Mall of Asia, The Block at SM City North Edsa, SM Supercenter Pasig, SM City Lipa, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. The new malls opened with a total gross floor area of almost 1 million square meters. Currently, these new malls have an average occupancy level of 96%. Same store rental growth is at 7%.

For the year 2007, cinema ticket sales showed a strong performance of 15% growth due to more cinemas and the IMAX Theatre. For 2007, major blockbuster films shown were "Spiderman 3," "Transformers," "Harry Potter 5," "Ang Cute ng Ina Mo," and "One More Chance." In 2006, major films shown were "Superman Returns," "Sukob," "X - Men 3," "Mission Impossible 3," and "Pirates of the Caribbean 2."

Operating expenses increased by 19% from P5.56 billion to P6.62 billion mainly due to the new malls. Likewise, income from operations enjoyed a favorable growth of 14% from P7.66 billion in 2006 to P8.73 billion in 2007.

Net income for the year ended 2007 increased 10% at P5.97 billion from same period last year of P5.45 billion.

On the balance sheet side, cash and cash equivalents, including investments held for trading decreased 71% mainly due to principal and interest payments on loans and capital expenditures.

Receivables increased 5% due to rentals, interest and dividend receivables. Prepaid expenses and other current assets decreased 15% mainly due to subsequent application of input VAT.

The significant decrease in available-for-sale investments of 58% mainly pertains to the early redemption of Ayala preferred shares amounting to P2.5 billion. The shares were redeemed in July and August 2007 and were used to prepay a portion of long-term debt.

The decrease in derivative assets of 55% is due to the pre-termination of the interest rate swap related to the prepayment of the underlying obligation last July 2007.

Other noncurrent assets decreased 3% due to subsequent liquidation and application of deposits paid and advances to contractors.

The increase in investment properties and shopping malls under construction of 11% is mainly due to completed projects e.g. SM City Bacolod, SM City Taytay, SM City Cebu Annex, SM Supercenter Muntinlupa, SM City Pampanga Expansion, the Science Discovery Center at the Mall of Asia, and the San Miguel by the Bay. Included under shopping malls under construction are SM City Marikina and SM North Edsa Expansion.

Loans payable decreased 93% due to principal payments. Likewise, long-term debt also decreased 7% due to principal amortization and prepayment of loans amounting to P3.5 billion. In 2007, the Company availed P4 billion used for capital expenditure requirements and to prepay a portion of long-term debt.

The increase in accounts payable and accrued expenses of 37% is due to construction activities, accrued operating expenses and liability for purchased land. Tenants' deposits and others increased 10% due to the new malls in 2007.

The increase in derivative liabilities is due to the non-deliverable forwards in 2007 with a notional amount of \$160 million and the additional marked-to-market losses arising from the cross currency swap entered into in 2004 and maturing in 2009.

Unrealized gain on available-for-sale investments included under "Stockholders' Equity" account in the balance sheets decreased 73% due to adjustments related to early redemption of Ayala preferred shares.

The Company's performance indicators are measured in terms of the following: (1) Ratio of investment properties to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (4) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) earnings before interest, income taxes, depreciation and amortization (EBITDA); (7) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (8) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (9) operating income to revenues which basically measures the gross profit ratio; (10) EBITDA margin which measures the ratio of EBITDA to gross revenues and, (11) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total investment properties accounting for 85% and 73% of total assets as of December 31, 2007 and 2006, respectively. The Company's current ratio is steady at 1.24:1 and 1.03:1 as of December 31, 2007 and 2006, respectively.



Interest-bearing debt to stockholders' equity significantly decreased to 0.31:0.69 from 0.42:0.58 as of December 31, 2007 and 2006, respectively, due to principal amortizations and debt prepayments. Net interest-bearing debt to stockholders' equity remains strong at 0.25:0.75 and 0.26:0.74 as of December 31, 2007 and 2006, respectively.

In terms of profitability, ROE remains steady at 15% for the years ended December 31, 2007 and 2006.

EBITDA increased 16% to P10.99 billion for the year 2007 from P9.44 billion in 2006. Debt to EBITDA decreased at 1.56:1 from 2.74:1 as of December 31, 2007 and 2006, respectively. Likewise, EBITDA to interest expense increased from 12.37:1 to 16.79:1 for the years ended December 31, 2006 and 2007, respectively.

Operating income to revenues remains steady at 57% and 58% in 2007 and 2006, respectively, despite the new malls, due to cost cutting measures implemented in the malls. EBITDA margin remains strong at 72% for the year ended December 31, 2007 and 71% in the year ended December 31, 2006. Likewise, net income to revenues decreased to 39% for the year ended December 31, 2007 compared to 41% for the year ended December 31, 2006, mainly due to decrease in dividend income and increase in provision for income tax.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the company's continuing operations.

SM Prime currently has 30 Supermalls strategically located nationwide with a total gross floor area of 3.9 million square meters.

In 2007, the Company opened SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. Expansion of existing malls -- SM City Cebu -- Annex, The Science Discovery Center in the Mall of Asia, SM City Pampanga and the San Miguel by the Bay at the Mall of Asia Complex were also completed.

In 2008, the Company is scheduled to open SM City Marikina, SM City Baliuag and SM Supercenter Rosales. Expansion of SM Megamall and SM City Fairview are also underway. Total gross floor area will increase to 4.1 million square meters by end 2008 from 3.9 million square meters as of December 31, 2007.

Last November 13, 2007, the Board of SM Prime approved the acquisition of the three SM malls in China. The SM malls in China are similar to the SM malls in the Philippines, and are located in the southern and western parts of China namely, Xiamen, Jinjiang and Chengdu. The move will allow SM Prime to gain a foothold in China's fast-growing economy and use this as a platform for long-term growth outside of the Philippines where it is already the dominant shopping mall developer.

## **2006**

Financial and Operational Highlights  
(in Million Pesos, except for financial ratios)

**Twelve months ended Dec 31**

	<b>2006</b>	<b>2005</b>	<b>% Change</b>
<b>Profit &amp; Loss Data</b>			
Operating Revenues	13,222	10,905	21%
Operating Expenses	5,565	4,850	15%
Operating Income	7,657	6,055	26%
Net Income	5,449	4,973	10%
EBITDA	9,444	7,513	26%
	<b>Dec 31</b>	<b>Dec 31</b>	
	<b>2006</b>	<b>2005</b>	<b>% Change</b>
<b>Balance Sheet Data</b>			
Total Assets	70,792	59,429	19%
Total Debt	25,873	19,735	31%
Net Debt	12,727	9,392	36%
Total Stockholders' Equity	35,672	32,550	10%
<b>Financial Ratios</b>			
Fixed Assets to Total Assets	0.73	0.76	
Current Ratio	1.03	1.12	
Debt to Equity	0.42:0.58	0.38:0.62	
Net Debt to Equity	0.26:0.74	0.22:0.78	
Return on Equity	0.15	0.15	
Debt to EBITDA	2.74	2.63	
EBITDA to Interest Expense	12.37	26.96	
Operating Income to Revenues	0.58	0.56	
EBITDA Margin	0.71	0.69	
Net Income to Revenues	0.41	0.46	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts 21% increase in gross revenues for the year 2006 to P13.2 billion from P10.9 billion in 2005. Rental revenues remain the largest portion, with a significant growth of 22% amounting to P11.0 billion from last year's P9.0 billion. This is largely due to rentals from new SM Supermalls opened in the second half of 2005 and the year 2006, namely, SM City San Lazaro, SM Supercenter Valenzuela, SM Supercenter Molino, SM City Sta. Rosa, SM City Clark, SM Mall of Asia, SM Supercenter Pasig, The Block at SM North Edsa and SM City Lipa. The new malls opened with a total gross floor area of 1.0 million square meters. Currently, these new malls have an average occupancy level of 95%. Same store rental growth is at 7%.

Cinema ticket sales showed a strong performance of 22% increase due to more blockbuster films in 2006 compared to the same period in 2005 and the huge success of the 2006 Metro Manila Film Festival. For the year 2006, major blockbuster films shown were "Superman Returns," "Sukob," "X – Men 3," "Mission Impossible 3," and "Pirates of the Carribean 2." In 2005, major films shown were "Harry Potter 4," "King Kong," "Dubai," "D Anothers," and "Let the Love Begin."

Operating expenses increased by 15% from P4.85 billion to P5.57 billion mainly due to the new malls. Income from operations enjoyed a favorable growth of 26% from P6.05 billion in 2005 to P7.66 billion in 2006.

Net income in 2006 increased 10% at P5.45 billion from last year's P4.97 billion. The decrease in interest and dividend income is mainly due to the sale of investments held for trading, while the increase in interest expense is the result of additional borrowings. Corporate income tax rates were also increased from 32% to 35% effective November 1, 2005 as required by R.A. No. 9337.

On the balance sheet side, cash and cash equivalents, including investments held for trading increased 52% due to the new malls and proceeds from new loans net of capital expenditures and principal and interest payments. Receivables increased 32% due to increase in rent income from the new malls and accruals for interest and dividend income.

The increase in prepaid expenses and other current assets of 79% is mainly due to input taxes from construction activities. Other noncurrent assets increased 48% due to deposits paid for leased properties and advances to contractors.

The increase in investment properties of 14% is mainly due to construction activities related to completed projects like SM City Sta. Rosa, SM City Clark, SM Mall of Asia, The Block at SM North Edsa, SM Supercenter Pasig, SM City Lipa and SM City Bacolod. Ongoing projects are SM City Taytay, SM City Cebu Annex, and SM Supercenter Muntinlupa.

Loans payable increased 151% due to additional short-term, peso-denominated and dollar-denominated loans amounting to P1.69 billion and \$68.05 million, respectively, availed during 2006, net of principal payments. Likewise, long-term debt also increased due to the P3 billion floating rate note facility availed from Metrobank in June 2006 and the P1.2 billion fixed rate note facility from Philamlife in August 2006. The borrowings were availed to finance capital expenditure requirements.

The Company's performance indicators are measured in terms of the following: (1) Ratio of investment properties to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (4) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) earnings before interest, income taxes, depreciation and amortization (EBITDA); (7) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (8) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (9) operating income to revenues which basically measures the gross profit ratio; (10) EBITDA margin which measures the ratio of EBITDA to gross revenues and, (11) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total investment properties accounting for 73% and 76% of total assets as of December 31, 2006 and 2005, respectively. The Company's current ratio is steady at 1.03:1 as of December 31, 2006 and 1.12:1 as of December 31, 2005.

Interest-bearing debt to stockholders' equity slightly increased to 0.42:0.58 from 0.38:0.62 as of December 31, 2006 and 2005, respectively. Net interest-bearing debt to stockholders' equity remains strong at 0.26:0.74 and 0.22:0.78 as of December 31, 2006 and 2005, respectively.

In terms of profitability, ROE remains steady at 15% for both years 2006 and 2005.

EBITDA increased 26% to P9.44 billion for the year 2006 from P7.5 billion in 2005. Debt to EBITDA slightly increased at 2.74:1 from 2.63:1 as of December 31, 2006 and 2005, respectively. EBITDA to interest expense however decreased from 26.96:1 to 12.37:1 from the year 2005 to 2006 due to increase in interest expense.

Operating income to revenues increased to 58% in 2006 from 56% in 2005. EBITDA margin remains strong at 71% and 69% for the years ended 2006 and 2005, respectively. On the other hand, net income to revenues decreased at 41% compared to 46% for the year ended 2006 and 2005, respectively, mainly due to increase in interest expense and provision for income tax.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the company's continuing operations.

SM Prime currently has 28 Supermalls strategically located nationwide with a total gross floor area of 3.6 million square meters.

Last May 21, 2006, the Company opened the Mall of Asia to a huge crowd of close to a million. Located on a 60 hectare property overlooking Manila Bay, the 386,000 square meter complex consists of four buildings linked by elevated walkways - Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building. Other malls opened in 2006 were SM City Sta. Rosa, SM City Clark, SM Supercenter Pasig and SM City Lipa.

The Company opened its 28th mall, SM City Bacolod in March 2, 2007. Other malls scheduled to open in 2007 are SM City Taytay and SM Supercenter Muntinlupa. Ongoing expansion of existing malls, SM City Cebu – Annex, The Science Discovery Center in the Mall of Asia and the Sunset Strip at the Espalanade in SM BayCity, SM City Pampanga and SM City Fairview are also underway. Total gross floor area will increase to 3.9 million square meters by end 2007 from 3.6 million square meters as of December 31, 2006.

## **2005**

### **Financial and Operational Highlights**

(in Million Pesos, except for financial ratios)

	<b>Year Ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>Variance</b>
Profit & Loss Data			
Operating Revenues	10,905	10,209	7%
Operating Expenses	4,850	4,469	9%
Operating Income	6,055	5,740	5%
Net Income	4,973	4,621	8%
EBITDA	7,513	7,074	6%

	<b>December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>Variance</b>
<b>Balance Sheet Data</b>			
Total Assets	59,429	53,932	10%
Total Investment Properties	45,380	35,315	28%
Total Debt	19,735	18,440	8%
Total Stockholders' Equity	32,550	29,939	9%
<b>Financial Ratios</b>			
Fixed Assets to Total Assets	76%	65%	
Current Ratio	1.12	1.48	
Debt to Equity	38 : 62	38 : 62	
Return on Equity	15%	15%	
EBITDA to Debt	0.38	0.38	
Operating Income to Revenues	56%	56%	
Net Income to Revenues	46%	45%	

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts P4.97 billion net income for the year ended December 31, 2005---an 8% increase from last year's P4.62 billion. Gross revenues likewise increased 7% to P10.90 billion in 2005 from P10.21 billion in 2004. Rental revenues remain the largest portion, with a 10% growth to P9.03 billion from last year's P8.18 billion. This is largely due to rentals from new SM Supermalls opened in 2004, namely SM City Dasmariñas and SM City Batangas and the opening of SM City San Lazaro, SM Supercenter Molino and SM Supercenter Valenzuela in 2005. Same store rental growth is at 5%.

SM City San Lazaro, SM Supercenter Molino and SM Supercenter Valenzuela opened with a total gross floor area of 296,102 square meters. Currently, these malls have an average occupancy level of 97%.

Cinema ticket sales declined 12% due to more blockbuster films in 2004 compared to 2005. Major films shown in 2005 were "Harry Potter 4," "King Kong," "Dubai," "D Anothers," and "Let the Love Begin." In 2004, major blockbuster films shown for the same period were "Spiderman 2," "Harry Potter 3," "Day After Tomorrow," "Lord of the Rings 3," and "Milan."

Operating expenses also grew 9% due to the opening of new malls. Depreciation expense for these new malls also contributed to this increase. Income from operations, however, remains favorable at P6.01 billion from last year's P5.74 billion.

On the balance sheet side, cash and cash equivalents including investments held for trading, decreased 49% principally due to capital expenditures and payments of dividends, interest and principal amortization. Receivables increased 11% due to the expected surge in rent income towards the last quarter of the year.

The increase in prepaid expenses and other current assets of 90% is mainly due to accumulated input VAT.

The increase in investment properties and shopping malls under construction of 28% is mainly due to construction activities related to Mall of Asia, SM Valenzuela, SM Molino and SM Sta. Rosa and other malls scheduled to open in 2006. The increase in other noncurrent assets of 46% is due to deposits paid for properties leased in 2005.

Long-term debt and loans payable had a net increase of 8% due to additional long-term debt of P5 billion completed in July 2005 net of principal repayments. The Notes, composed of P3.5 billion and P1.5 billion will mature in five years and seven years, respectively.

Accounts payable and accrued expenses increased 27% due to accruals for purchased land and construction activities.

Tenants' deposits and others increased 23% due to the new malls which were opened in 2005. The increase in minority interest of 6% is due to share in net income of FARDC offset by dividends declared.

The Company's performance indicators are measured in terms of the following: (1) Ratio of fixed assets to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (4) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (5) earnings before interest, income taxes, depreciation and amortization (EBITDA); (6) EBITDA to Debt which measures the ratio of EBITDA to total interest-bearing liabilities; (7) operating income to revenues which basically measures the gross profit ratio; and, (8) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total fixed assets accounting for 76% of total assets as of December 31, 2005 and 65% as of December 31, 2004. The Company's current ratio declined 1.12:1 as of December 31, 2005 as compared to 1.48:1 as of December 31, 2004.

Interest-bearing debt to stockholders' equity is steady at 0.38:0.62 as of December 31, 2005 and 2004. Although a new P5 billion loan facility was acquired in 2005, portion of short-term loans and principal amortizations were paid during the year.

In terms of profitability, ROE remains steady at 15% for both years 2005 and 2004.

EBITDA increased 6% to P7.51 billion for the year ended December 31, 2005 from P7.07 billion in 2004. EBITDA to Debt is steady at 0.38 for both years 2005 and 2004.

Operating income to revenues is steady at 56%. On the other hand, net income to revenues is almost steady at 46% and 45%, respectively, for the years ended 2005 and 2004.

SM Prime currently has 23 Supermalls strategically located nationwide with a total gross floor area of 2.9 million square meters.

In May 2006, the Company is set to open the Mall of Asia. Located on a 60 hectare property overlooking Manila Bay, the 386,000 square meter complex consists of four buildings linked by elevated walkways - Main Mall, the North Parking Building, the South Parking Building, and the Entertainment Center Building.

The Main Mall will include shopping and dining establishments, the Food Court, and the country's first Olympic size ice skating rink. The North Parking Building will house the SM Department Store and half of the 5,000 parking spaces, while the South Parking Building will include the SM Hypermarket and more dining areas. One of the Mall's main attractions is the Entertainment Center Building, which will offer a spectacular view of the Bay from its row of trendy restaurants, but which will also house bowling and billiard facilities, and ten theaters including a Director's Club and the country's first IMAX theater.

The Company opened its 23rd mall, SM City Santa Rosa on February 17, 2006. Other malls scheduled to open in 2006 are SM City Clark, SM City Lipa, SM Supercenter Frontera Verde, SM City Bacolod, and SM North Edsa Annex 3. Total gross floor area will increase to 3.5 million square meters by end 2006 from 2.8 million square meters as of December 31, 2005.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the company's continuing operations.

#### **Changes in and disagreements with accountants on accounting and financial disclosure**

There were no significant changes in and disagreements with accountants on accounting and financial disclosure.

#### **ITEM 12. Acquisition or Disposition of Property**

In the normal course of business, the Company does land banking activities for future mall sites.

#### **ITEM 13. Restatement of Accounts**

NA.

### **D. OTHER MATTERS**

#### **ITEM 14. Action with Respect to Reports**

The following are to be submitted for approval during the stockholders' meeting:

- (a) Minutes of the annual meeting of stockholders held on April 23, 2007.
- (b) General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.

These acts are covered by Resolutions of the Board of Directors duly adopted in the normal course of trade or business, like:

- (a) Approval of projects and land acquisitions;
- (b) Treasury matters related to opening of accounts and transactions with banks;
- (c) Appointments of signatories and amendments thereof.

#### **ITEM 15. Other Proposed Action**

The following are to be proposed for approval during the stockholders' meeting:

- (a) Election of directors for 2007 –2008;
- (b) Appointment of external auditors; and,
- (c) Other matters.

#### **ITEM 16. Amendment of Charter, By-Laws or Other Documents**

- NA -

## ITEM 17. Voting Procedures

### Vote required for approval

The vote required for the election of directors is majority of the outstanding capital stock.

### Methods by which votes will be counted

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote of any question need not be by ballot. Voting may be done by show of hands or by secret ballot. On a vote by ballot, each ballot shall not be signed by the stockholder voting, or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him.

The external auditor of the Company, SGV & Co, will validate the ballots when voting is done by secret ballot. Likewise, SGV & Co will count the number of hands raised when voting by show of hands is done.

## ITEM 18. Market for Registrant's Common Equity and Related Stockholder Matters

CASH DIVIDEND PER SHARE - ₱ 0.27 in 2007, ₱ 0.25 in 2006 and ₱ 0.23 in 2005.

Stock Prices	2007		2006	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	₱ 13.00	₱ 10.50	₱ 8.40	₱ 7.50
Second Quarter	15.00	11.00	9.10	6.90
Third Quarter	13.50	9.30	8.50	7.40
Fourth Quarter	12.75	10.00	11.25	8.30

The Company's shares of stock is traded in the Philippine Stock Exchange.

As of January 31, 2008, the closing price of the Company's shares of stock is ₱9.70/share. For the month ending January 31, 2008, stock prices of SMPHI were at a high of ₱10.75 and a low of ₱8.40.

The number of shareholders of record as of January 31, 2008 was 2,786. Capital stock issued and outstanding as of January 31, 2008 was 12,416,437,157. As of December 31, 2007, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 15 of the consolidated financial statements.

The top 20 stockholders as of January 31, 2008 are as follows:

Name	No. of Shares Held	% to Total
1. Shoemart, Inc.	5,938,801,649	47.76
2. PCD Nominee Corp. (Non-Filipino)	3,416,880,361	27.48
3. SM Investments Corp.	2,668,842,122	21.46
4. PCD Nominee Corp. (Filipino)	299,744,745	2.41
5. Sysmart Corporation	20,901,228	0.17



6. SM Prime Holdings, Inc. (treasury shares)	18,857,000	0.15
7. Henry Sy, Sr.	4,394,894	0.04
8. Regina Capital Dev. Corp.	4,257,163	0.03
9. Lucky Securities, Inc.	3,274,259	0.03
10. Morgan Guaranty Trust Co.	1,755,005	0.01
11. Philippine Air Force Educational Fund, Inc.	1,627,739	0.01
12. Southwood Mindanao Corporation	1,627,739	0.01
13. Elizabeth Sy	1,626,488	0.01
14. Macario Gaw Jr.	1,626,053	0.01
15. Teresita Sy	1,082,322	0.01
16. Agaton L. Tiu/ Remington Tiu	1,000,000	0.01
17. Remington Tiu/ Agaton Tiu	1,000,000	0.01
18. Chung Tiong Tay	838,912	0.01
19. Pua Yok Bing	762,533	0.01
20. Harry Robert Taylor	741,999	0.01

There are no recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction, except with respect to Notes 14 and 15 of the 2007 consolidated financial statements. The Company has no registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

As discussed in Note 14, the Company issued a ₱4 billion floating rate note facility in June 2007. The deal was arranged by First Metro Investment Corporation with SB Capital Investment Corporation acting as co-lead arranger. The notes issued are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799 (the Securities Regulation Code (SRC)).

As discussed in Note 15, the BOD and the stockholders approved the declaration of a 25% stock dividend or approximately 2.5 billion shares during the last April 23, 2007 stockholders' meeting. The stock dividend declaration was approved by the SEC on May 29, 2007 and subsequently issued on July 24, 2007. The securities issued are considered as exempt security pursuant to Section 10.1 of the SRC.

## **ITEM 19. Corporate Governance**

The Board of Directors has adopted a Corporate Governance Self Rating System as monitored by the Compliance Officer, Mr. Emmanuel C. Paras. The Compliance Officer ensures that the BOD and its officers and employees comply with all the leading practices and principles on good corporate governance as embodied in the Company's Manual.

The nomination committee reviews the qualifications of all directors including the independent director and monitors the participation of the directors in all meetings, both regular and special. No deviation from the Company's Manual of Corporate Governance has been noted. There are no existing plans to amend the Company's Manual of Corporate Governance.

***NOTE: The Company will provide without charge a copy of the Company's Annual Report on SRC Form 17-A to its stockholders upon receipt of a written request addressed to Mr. Jeffrey C. Lim, Executive Vice President, at SM Corporate Offices, Building A, JW Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.***



**Notice of Regular Annual Stockholders' Meeting**  
**April 24, 2008, 2:30 p.m.**  
**SMX Convention Center, Seashell Drive,**  
**J.W. Diokno Boulevard, Mall of Asia Complex,**  
**Pasay City 1300**

To all Stockholders:

Please take notice that the 2008 annual meeting of the stockholders of **SM PRIME HOLDINGS, INC.** will be held on April 24, 2008 at 2:30 p.m. at the SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300. The proposed agenda of the meeting is set forth below:

**AGENDA**

1. Call to order.
2. Certification of notice and quorum.
3. Approval of minutes of annual meeting of stockholders held on April 23, 2007.
4. Annual Report.
5. General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.
6. Election of directors for 2008-2009 (including Independent Director).
7. Appointment of external auditors.
8. Other matters.
9. Adjournment.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on March 25, 2008 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

Makati City, February 14, 2008.

BY THE ORDER OF THE BOARD OF DIRECTORS

Handwritten signature of EMMANUEL C. PARAS in blue ink.

**EMMANUEL C. PARAS**  
Corporate Secretary  
**SM PRIME HOLDINGS, INC.**

## Statement Of Management's Responsibility For Financial Statements

The management of SM Prime Holdings, Inc. is responsible for all information and representations contained in the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2007, and the summary of significant accounting policies and other explanatory notes. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's Audit Committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and, (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

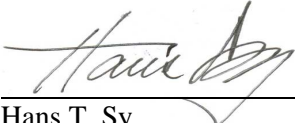
The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the stockholders and Board of Directors.



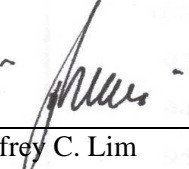
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Henry Sy, Sr.  
Chairman



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Hans T. Sy  
President



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Jeffrey C. Lim  
Executive Vice President

FEB 28 2008

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at CITY OF MANILA, affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	C.T. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
HENRY SY, SR.	00364329	February 11, 2008	Manila
HANS T. SY	00364333	February 11, 2008	Manila
JEFFREY C. LIM	19315678	February 11, 2008	Makati

Doc. No. 74  
 Page No. 15  
 Book No. 1  
 Series of 2008



PHILIP S. DIONISIO  
 NOTARY PUBLIC  
 UNTIL DECEMBER 31, 2008  
 PTR NO. 6282711 - J/N. 16. 08 - MANILA  
 IBP NO. 696436 - JAN. 03. 07 UP TO 08 - PASAY CITY

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
SM Prime Holdings, Inc.  
SM Corporate Offices, Building A  
J.W. Diokno Boulevard  
Mall of Asia Complex, Pasay City 1300

We have audited the accompanying financial statements of SM Prime Holdings, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 SM Prime Holdings, Inc. and Subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Melinda Gonzales-Manto  
Partner  
CPA Certificate No. 26497  
SEC Accreditation No. 0085-AR-1  
Tax Identification No. 123-305-056  
PTR No. 0017602, January 3, 2008, Makati City

February 7, 2008

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31</b>	
	<b>2007</b>	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 5, 14, 19, 21 and 22)	<b>₱2,114,940,507</b>	₱7,581,307,508
Investments held for trading (Notes 6, 14, 19, 21 and 22)	<b>149,688,504</b>	294,094,198
Receivables (Notes 3, 7, 19 and 22)	<b>2,896,342,346</b>	2,764,804,645
Prepaid expenses and other current assets (Note 8)	<b>950,480,849</b>	1,117,275,182
Total Current Assets	<b>6,111,452,206</b>	11,757,481,533
<b>Noncurrent Assets</b>		
Investment properties - net (Notes 3 and 9)	<b>51,985,268,210</b>	47,074,871,189
Shopping mall complex under construction (Note 10)	<b>5,470,043,177</b>	4,595,222,248
Available-for-sale investments (Notes 11, 19, 21 and 22)	<b>2,218,254,419</b>	5,270,194,577
Derivative assets (Note 22)	<b>347,248,200</b>	765,940,052
Deferred tax assets (Notes 3 and 17)	<b>40,081,403</b>	32,072,923
Other noncurrent assets	<b>1,262,083,145</b>	1,296,210,048
Total Noncurrent Assets	<b>61,322,978,554</b>	59,034,511,037
	<b>₱67,434,430,760</b>	₱70,791,992,570
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Loans payable (Notes 12, 19, 21 and 22)	<b>₱590,920,000</b>	₱8,027,991,500
Accounts payable and other current liabilities (Notes 12, 13, 19, 21 and 22)	<b>2,746,373,228</b>	1,997,704,808
Income tax payable	<b>763,157,403</b>	585,054,670
Current portion of long-term debt (Notes 14, 19, 21 and 22)	<b>840,625,000</b>	825,000,000
Total Current Liabilities	<b>4,941,075,631</b>	11,435,750,978
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 14, 19, 21 and 22)	<b>15,764,546,055</b>	17,019,897,331
Derivative liability (Note 22)	<b>1,768,518,516</b>	1,042,500,665
Deferred tax liabilities (Note 17)	<b>836,818,110</b>	722,857,915
Tenants' deposits and others (Notes 20, 21 and 22)	<b>4,331,546,418</b>	3,944,282,568
Total Noncurrent Liabilities	<b>22,701,429,099</b>	22,729,538,479
<b>Equity Attributable to Equity Holders of the Parent (Note 21)</b>		
Capital stock (Notes 15 and 23)	<b>12,435,294,157</b>	9,935,294,157
Additional paid-in capital	<b>3,099,777,406</b>	3,099,777,406
Unrealized gain on available-for-sale investments (Notes 11 and 22)	<b>40,736,047</b>	153,086,204
Retained earnings (Note 15):		
Appropriated	<b>7,000,000,000</b>	7,000,000,000
Unappropriated	<b>16,383,297,235</b>	15,585,749,586
Treasury stock (Notes 15 and 23)	<b>(101,474,705)</b>	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent	<b>38,857,630,140</b>	35,672,432,648
<b>Minority Interests</b>		
Total Stockholders' Equity	<b>39,791,926,030</b>	36,626,703,113
	<b>₱67,434,430,760</b>	₱70,791,992,570

*See accompanying Notes to Consolidated Financial Statements.*

**\* SGVMC210663 \***

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31		
	2007	2006	2005
<b>REVENUE</b>			
Rent (Notes 3, 19 and 20)	<b>₱12,806,767,515</b>	₱10,972,042,723	₱9,027,377,053
Cinema ticket sales	<b>1,843,187,522</b>	1,597,030,599	1,308,131,615
Interest income from short-term investments (Notes 6 and 19)	<b>401,440,618</b>	444,811,634	630,927,747
Dividend income (Note 11)	<b>295,088,980</b>	417,816,293	459,716,619
Amusement and others (Notes 6 and 22)	<b>840,677,124</b>	900,393,181	666,988,967
	<b>16,187,161,759</b>	14,332,094,430	12,093,142,001
<b>COST AND EXPENSES</b>			
Operating expenses (Notes 16, 18, 19 and 20)	<b>(6,621,411,044)</b>	(5,565,249,821)	(4,849,838,840)
Interest expense on short-term and long-term loans (Notes 12, 14 and 19)	<b>(654,698,850)</b>	(763,706,295)	(278,686,280)
	<b>8,911,051,865</b>	8,003,138,314	6,964,616,881
<b>INCOME BEFORE INCOME TAX</b>			
<b>PROVISION FOR INCOME TAX (Note 17)</b>			
Current	<b>2,471,142,585</b>	1,921,844,308	1,447,706,622
Deferred	<b>154,101,781</b>	331,388,557	267,189,732
	<b>2,625,244,366</b>	2,253,232,865	1,714,896,354
	<b>₱6,285,807,499</b>	₱5,749,905,449	₱5,249,720,527
<b>NET INCOME</b>			
<b>Attributable to:</b>			
Equity holders of the Parent (Note 23)	<b>₱5,974,985,672</b>	₱5,448,922,555	₱4,972,905,620
Minority interests	<b>310,821,827</b>	300,982,894	276,814,907
	<b>₱6,285,807,499</b>	₱5,749,905,449	₱5,249,720,527
	<b>₱0.481</b>	₱0.439	₱0.401
<b>Basic/Diluted Earnings Per Share (Note 23)</b>			

*See accompanying Notes to Consolidated Financial Statements.*

**\* SGVMC210663 \***



**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	Equity Attributable to Equity Holders of the Parent								
	Capital Stock (Notes 15 and 23)	Additional Paid-in Capital	Unrealized Gain on Available-for-Sale Investments (Notes 11 and 22)	Retained Earnings		Treasury Stock (Notes 15 and 23)	Total	Minority Interests	Total
				Appropriated (Note 15)	Unappropriated (Note 15)				
At January 1, 2007	<b>₱9,935,294,157</b>	<b>₱3,099,777,406</b>	<b>₱153,086,204</b>	<b>₱7,000,000,000</b>	<b>₱15,585,749,586</b>	<b>(₱101,474,705)</b>	<b>₱35,672,432,648</b>	<b>₱954,270,465</b>	<b>₱36,626,703,113</b>
Cumulative gain transferred to statement of income	-	-	(184,216,294)	-	-	-	(184,216,294)	-	(184,216,294)
Income for the year recognized directly in equity	-	-	71,866,137	-	-	-	71,866,137	-	71,866,137
Net income	-	-	-	-	5,974,985,672	-	5,974,985,672	310,821,827	6,285,807,499
Total income and expense for the year	-	-	(112,350,157)	-	5,974,985,672	-	5,862,635,515	310,821,827	6,173,457,342
Cash dividends - ₱0.27 a share in 2007	-	-	-	-	(2,677,438,023)	-	(2,677,438,023)	-	(2,677,438,023)
Stock dividends - 25.2% a share in 2007	2,500,000,000	-	-	-	(2,500,000,000)	-	-	-	-
Dividends of subsidiary	-	-	-	-	-	-	-	(330,796,402)	(330,796,402)
	2,500,000,000	-	-	-	(5,177,438,023)	-	(2,677,438,023)	(330,796,402)	(3,008,234,425)
At December 31, 2007	<b>₱12,435,294,157</b>	<b>₱3,099,777,406</b>	<b>₱40,736,047</b>	<b>₱7,000,000,000</b>	<b>₱16,383,297,235</b>	<b>(₱101,474,705)</b>	<b>₱38,857,630,140</b>	<b>₱934,295,890</b>	<b>₱39,791,926,030</b>
At January 1, 2006	₱9,935,294,157	₱3,099,777,406	₱-	₱7,000,000,000	₱12,615,936,311	(₱101,474,705)	₱32,549,533,169	₱877,894,152	₱33,427,427,321
Income for the year recognized directly in equity	-	-	153,086,204	-	-	-	153,086,204	-	153,086,204
Net income	-	-	-	-	5,448,922,555	-	5,448,922,555	300,982,894	5,749,905,449
Total income for the year	-	-	153,086,204	-	5,448,922,555	-	5,602,008,759	300,982,894	5,902,991,653
Cash dividends - ₱0.25 a share in 2006	-	-	-	-	(2,479,109,280)	-	(2,479,109,280)	-	(2,479,109,280)
Dividends of subsidiary	-	-	-	-	-	-	-	(224,606,581)	(224,606,581)
	-	-	-	-	(2,479,109,280)	-	(2,479,109,280)	(224,606,581)	(2,703,715,861)
At December 31, 2006	₱9,935,294,157	₱3,099,777,406	₱153,086,204	₱7,000,000,000	₱15,585,749,586	(₱101,474,705)	₱35,672,432,648	₱954,270,465	₱36,626,703,113
At January 1, 2005	₱9,935,294,157	₱3,099,777,406	₱-	₱7,000,000,000	₱9,953,560,549	(₱101,474,705)	₱29,887,157,407	₱827,821,782	₱30,714,979,189
Net income	-	-	-	-	4,972,905,620	-	4,972,905,620	276,814,907	5,249,720,527
Cash dividends - ₱0.23 a share in 2005	-	-	-	-	(2,310,529,858)	-	(2,310,529,858)	-	(2,310,529,858)
Dividends of subsidiary	-	-	-	-	-	-	-	(226,742,537)	(226,742,537)
At December 31, 2005	₱9,935,294,157	₱3,099,777,406	₱-	₱7,000,000,000	₱12,615,936,311	(₱101,474,705)	₱32,549,533,169	₱877,894,152	₱33,427,427,321

See accompanying Notes to Consolidated Financial Statements.

\*SGVMC210663\*

**SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax and minority interest	<b>₱8,911,051,865</b>	₱8,003,138,314	₱6,964,616,881
Adjustments for:			
Depreciation (Notes 9 and 16)	<b>2,260,923,374</b>	1,787,114,368	1,457,685,076
Interest and dividend income (Notes 6, 11 and 19)	<b>(696,529,598)</b>	(862,627,927)	(1,090,644,366)
Interest expense (Notes 12, 14 and 19)	<b>654,698,850</b>	763,706,295	278,686,280
Unrealized marked-to-market loss			
on derivatives - net (Note 22)	<b>567,691,997</b>	276,560,613	-
Unrealized foreign exchange loss (gain) - net	<b>(514,312,972)</b>	(668,499,763)	11,024,503
Realized marked-to-market loss			
on derivatives (Note 22)	<b>138,638,574</b>	-	-
Unrealized marked-to-market loss (gain)			
on investments held for trading (Note 6)	<b>1,894,445</b>	(8,264,785)	(25,073,031)
Operating income before working capital changes	<b>11,324,056,535</b>	9,291,127,115	7,596,295,343
Decrease (increase) in:			
Receivables	<b>(461,239,973)</b>	(434,214,375)	(219,089,383)
Prepaid expenses and other current assets	<b>166,794,333</b>	(492,067,412)	(296,497,995)
Increase (decrease) in:			
Accounts payable and other current liabilities	<b>722,921,860</b>	(46,810,032)	267,715,495
Tenants' deposits and others	<b>347,572,186</b>	805,310,107	393,856,337
Cash generated from operations	<b>12,100,104,941</b>	9,123,345,403	7,742,279,797
Income taxes paid	<b>(2,293,039,852)</b>	(1,840,635,298)	(1,468,432,180)
Net cash provided by operating activities	<b>9,807,065,089</b>	7,282,710,105	6,273,847,617
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (increase) in:			
Investment properties (Note 9)	<b>(2,104,663,127)</b>	(838,177,239)	(1,881,420,309)
Shopping mall complex under construction (Note 10)	<b>(4,809,975,042)</b>	(5,953,210,516)	(8,276,985,529)
Available-for-sale investments	<b>2,500,000,000</b>	(100,000,000)	300,000,000
Investments held for trading	<b>114,372,281</b>	1,347,832,047	2,736,919,494
Other noncurrent assets	<b>73,818,567</b>	(364,831,456)	(258,957,684)
Interest and dividend received	<b>1,075,287,467</b>	681,231,811	1,093,709,716
Net cash used in investing activities	<b>(3,151,159,854)</b>	(5,227,155,353)	(6,286,734,312)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans (Notes 12 and 14)	<b>12,162,137,525</b>	14,673,147,307	6,608,671,497
Proceeds from termination of interest rate swap (Note 22)	<b>438,379,132</b>	-	-
Payments of:			
Loans (Notes 12 and 14)	<b>(19,672,543,426)</b>	(7,528,727,523)	(4,535,375,000)
Dividends	<b>(3,008,234,425)</b>	(2,703,715,861)	(2,537,272,395)
Interest	<b>(1,809,511,042)</b>	(2,109,147,630)	(1,418,069,187)
Net cash provided by (used in) financing activities	<b>(11,889,772,236)</b>	2,331,556,293	(1,882,045,085)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	<b>(232,500,000)</b>	(347,969,784)	(239,134,503)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(5,466,367,001)</b>	4,039,141,261	(2,134,066,283)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>7,581,307,508</b>	3,542,166,247	5,676,232,530
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱2,114,940,507</b>	₱7,581,307,508	₱3,542,166,247

*See accompanying Notes to Consolidated Financial Statements.*

\* SGVMC210663 \*

## **SM PRIME HOLDINGS, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

SM Prime Holdings, Inc. (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. Its subsidiaries are also incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Company”) develop, conduct, operate and maintain the business of modern commercial shopping centers and all businesses related thereto, such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, or cinema theaters within the compound of the shopping centers. Its main sources of revenue include rent income from leases in mall and food court, cinema ticket sales and amusement income from bowling, ice skating and others.

The Parent Company’s shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The Parent Company is 52.79% directly and indirectly-owned by SM Investments Corporation (SMIC). SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

The registered office and principal place of business of the Parent Company is SM Corporate Offices, Building A, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.

The accompanying consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 7, 2008.

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#### **2. Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investments held for trading and available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency under Philippine Financial Reporting Standards (PFRS). All values are rounded to the nearest peso, except when otherwise indicated.

##### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with PFRS. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) issued by the Financial Reporting Standards Council.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which the Company has adopted during the year:

- PFRS 7, *Financial Instruments: Disclosures*, requires disclosures that enable users of financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed. The adoption of this standard resulted in additional disclosures such as aging analysis of rent receivables, contractual maturity analysis of financial liabilities and market sensitivity analysis (see Notes 7 and 21).
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*, requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Company.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, states that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Company.
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, requires that an entity must not reverse an impairment loss recognized in the interim period in respect of goodwill and AFS equity investments. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

The adoption of the above new PFRS and Philippine Interpretations from IFRIC did not have any effect on the financial performance or position of the Company. They did, however, give rise to additional disclosures.

#### Future Changes in Accounting Policies

- PFRS 8, *Operating Segments*, will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheets and consolidated statements of income and companies will need to provide explanations and reconciliations of the differences. The Company will assess the impact of this standard to its current manner of reporting segment information when it adopts the standard on January 1, 2009.

- PAS 23, *Amendment to Borrowing Costs*, issued in March 2007 and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The adoption of this amendment will have no impact on the consolidated financial statements since it is the Company's current policy to capitalize borrowing costs related to a qualifying asset.
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, will be effective on January 1, 2008. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this interpretation to have a significant impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the Company's consolidated financial statements as this is not relevant to its current operations.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's consolidated financial statements as no such schemes currently exist.
- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company expects that this interpretation will have no impact on the financial position or performance of the Company.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

<u>Company</u>	<u>Percentage of Ownership</u>	<u>Shoe Mart (SM) Malls/Properties Owned</u>
First Asia Realty Development Corporation	54.37	SM Megamall
Premier Central, Inc.	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	100.00	SM City Dasmarias
Premier Southern Corp. (PSC)	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	100.00	–
First Leisure Ventures Group Inc. (FLVGI)	50.00	San Miguel by the Bay

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority members of the board representing the Parent Company.

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

All intracompany balances, transactions, income and expenses resulting from intracompany transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated statements of income and within stockholders' equity in the consolidated balance sheets, separately from equity attributable to parent equity holders.

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3. **Significant Accounting Judgments, Estimates and Assumptions**

Judgments

In the process of applying the Company's accounting policy pertaining to leases, management has determined that it retains all the significant risks and rewards of ownership of the investment properties which are leased out and, accordingly, account for such leases as operating leases.

Rent income amounted to ₱12,807 million, ₱10,972 million and ₱9,027 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Use of Estimates

The key assumptions that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Allowance for Impairment Losses on Receivables.* The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, average age of accounts and collection experience. The Company performs a regular review of the age and status of these accounts, designed to

identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying amount of receivables amounted to ₱2,896 million and ₱2,765 million as of December 31, 2007 and 2006, respectively (see Note 7).

*Estimated Useful Lives of Investment Properties.* The useful life of each of the Company's investment property is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any investment property would increase the recorded operating expenses and decrease investment properties.

The net book value of investment properties amounted to ₱51,985 million and ₱47,075 million as of December 31, 2007 and 2006, respectively (see Note 9).

*Impairment of Nonfinancial Assets.* The Company assesses at each reporting date whether there is an indication that investment properties may be impaired. An investment property's recoverable amount is the higher of an investment property's fair value less costs to sell and its value in use. When the carrying amount of an investment property exceeds its recoverable amount, the investment property is considered impaired and is written down to its recoverable amount.

The net book value of investment properties amounted to ₱51,985 million and ₱47,075 million as of December 31, 2007 and 2006, respectively (see Note 9).

*Realizability of Deferred Tax Assets.* The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the projected taxable income in the following periods. This projection is based on the Company's past and future results of operations.

Deferred tax assets amounted to ₱40 million and ₱32 million as of December 31, 2007 and 2006, respectively (see Note 17).

*Pension.* The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

*Financial Assets and Liabilities.* The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities are discussed in Note 22.

*Contingencies.* The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these claims (see Note 24).

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#### 4. **Summary of Significant Accounting and Financial Reporting Policies**

##### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

##### Financial Assets and Liabilities

*Date of Recognition.* The Company recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Company classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.



*Determination of Fair Value.* The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

#### Financial Assets

*Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statements of income under "Amusement and others" account.

Financial assets may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Classified as financial assets at FVPL are investments held for trading (see Note 6) and derivative financial instruments (see Note 22).

The carrying values of financial assets under this category amounted to ₱497 million and ₱1,060 million as of December 31, 2007 and 2006, respectively (see Note 22).

*Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Loans and receivable are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified under this category are the Company's receivables (see Note 7).

The carrying values of financial assets under this category amounted to ₱2,896 million and ₱2,765 million as of December 31, 2007 and 2006, respectively (see Note 22).

*HTM Investments.* HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Company has no investments classified as HTM as of December 31, 2007 and 2006.

*AFS Financial Assets.* AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as revaluation reserve for AFS financial assets in the stockholders' equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest rate. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

Classified under this category are the Company's investments in redeemable preferred shares (see Note 11).

The carrying values of financial assets classified under this category amounted to ₱2,218 million and ₱5,270 million as of December 31, 2007 and 2006, respectively (see Note 22).

### Financial Liabilities

*Financial Liabilities at FVPL.* Financial liabilities are classified in this category if these result from trading activities or derivatives transaction that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category.

Included in this category are the Company's derivative financial instruments with negative fair values (see Note 22).

The carrying values of financial liabilities at FVPL amounted to ₱1,769 million and ₱1,043 million as of December 31, 2007 and 2006, respectively (see Note 22).

*Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes loans payable, accounts payable and other current liabilities, long-term debt and tenants' deposits and others (see Notes 12, 13, 14 and 20).

The carrying values of financial liabilities under this category amounted to ₱24,274 million and ₱31,815 million as of December 31, 2007 and 2006, respectively (see Note 22).

### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

### Debt Issuance Costs

Debt issuance costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

### Derivative Financial Instruments and Hedging

*Freestanding Derivative.* The Company uses derivative financial instruments such as long-term currency swaps, foreign currency call options and interest rate swaps to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company's derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

*Embedded Derivative.* An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

### Derecognition of Financial Assets and Liabilities

*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;
- the Company retains the right 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 Company 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 Company 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, the asset is recognized to the extent of the Company's continuing involvement in the asset.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 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 profit and loss.

#### Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

*Assets Carried at Amortized Cost.* If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. 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 a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

*Assets Carried at Cost.* If there is objective evidence that an impairment loss has been incurred in 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 an 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.

*AFS Financial Assets.* If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets 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 agreements, and the related assets and liabilities are presented gross in the consolidated balance sheets.

#### Investment Properties

Investment properties represent land and buildings, structures, equipment and improvements of the shopping malls.

Investment properties are measured initially at cost, including transaction costs, less accumulated depreciation and accumulated impairment in value, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets:

Buildings and improvements	35 years
Building equipment, furniture and others	3–15 years

The residual values, useful lives and method of depreciation of the assets are reviewed and adjusted, if appropriate, at each financial year-end.

When each major inspection is performed, the cost is recognized in the carrying amount of the investment properties as a replacement, if the recognition criteria are met.

Investment property is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the year of retirement or disposal.

The transfer of shopping mall complex under construction to investment property is made when there is a change in use, evidenced by completion of construction of the shopping mall complex.

#### Shopping Mall Complex Under Construction

Shopping mall complex under construction is stated at cost and includes the cost of land, construction costs, property and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period, provided that the carrying amount does not exceed the amount realizable from the use or sale of the asset. Shopping mall complex under construction is not depreciated until such time that the relevant assets are completed and put into operational use.

#### Impairment of Nonfinancial Assets

The carrying value of investment properties is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of investment properties is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction less costs to sell. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that 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 recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, 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 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.

#### Treasury Stock

Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

#### Revenue

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Rent.* Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease, as applicable.

*Cinema Ticket Sales, Amusement and Others.* Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services.

*Interest.* Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

*Dividend Income.* Revenue is recognized when the right to receive the payment is established.

#### Management Fees

Management fees are recognized as an expense in accordance with the terms of the agreements.

#### Pension Cost

The Parent Company is a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the "corridor" (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

The amount recognized as defined benefit liability is the net of the present value of the defined benefit obligation at the balance sheet date, plus any actuarial gains not recognized minus past service cost not yet recognized minus the fair value of plan assets at the balance sheet date out of which the obligations are to be settled directly.

#### Foreign Currency Transactions

The financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases where the Company retains substantially all the risks and benefits or ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. 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 basis as the rental income.

#### Provisions

Provisions are recognized when the Company 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 amount of the obligation. If the effect of the time value of money is material, provisions are 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 the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

#### Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. 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 substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds used to finance the shopping mall complex.



## Taxes

*Current Tax.* Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance sheet date.

*Deferred Tax.* Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except for those that are stated under the standard.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except for those that are stated under the standard.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Sales Tax.* Revenue, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheets.

## Basic/Diluted Earnings Per Share (EPS)

Basic/Diluted EPS is computed by dividing the net income for the year by the weighted average number of issued and outstanding shares of stock during the year, with retroactive adjustments for any stock dividends declared.

## Business Segment

The Company has one primary business segment, which is shopping mall operation.

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.

Subsequent Events

Post-year end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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5. **Cash and Cash Equivalents**

This account consists of:

	2007	2006
Cash on hand and in banks (see Note 19)	<b>₱443,180,491</b>	₱308,776,352
Temporary investments (see Notes 14 and 19)	<b>1,671,760,016</b>	7,272,531,156
	<b>₱2,114,940,507</b>	₱7,581,307,508

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods depending on the immediate cash requirements of the Company, and earn interest at the respective temporary investment rates.

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6. **Investments Held for Trading**

This account consists of investments in Philippine government bonds with fixed interest rates ranging from 6.71% to 8.00%. The investments are U.S. dollar-denominated and will mature on various dates starting November 22, 2008 until January 15, 2016.

Investments held for trading includes unrealized marked-to-market loss amounting to ₱2 million in 2007, unrealized marked-to-market gain amounting to ₱8 million in 2006 and unrealized marked-to-market gain amounting to ₱25 million in 2005, the amounts of which are presented as part of "Amusement and others" account in the consolidated statements of income.

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7. **Receivables**

This account consists of:

	2007	2006
Rent (see Note 19)	<b>₱2,193,353,690</b>	₱2,013,845,438
Accrued interest and others (see Note 19)	<b>702,988,656</b>	750,959,207
	<b>₱2,896,342,346</b>	₱2,764,804,645

Rent receivables generally have terms of 30-90 days.

Accrued interest and others are normally collected throughout the financial year.

As of December 31, the aging analysis of rent receivables is as follows:

	2007	2006
Current	<b>₱1,838,004,573</b>	₱1,693,695,801
31-90 days	<b>355,349,117</b>	320,149,637
	<b>₱2,193,353,690</b>	₱2,013,845,438

Receivables are assessed by the management of the Company as not impaired, good and collectible.

## 8. Prepaid Expenses and Other Current Assets

This account primarily consists of input taxes amounting to ₱639 million and ₱863 million as of December 31, 2007 and 2006, respectively. The input value added tax is applied against output value added tax. The remaining balance is recoverable in future periods.

## 9. Investment Properties

This account consists of:

	2007			
	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
<b>Cost</b>				
Balance at beginning of year	<b>₱7,879,436,238</b>	<b>₱41,221,417,303</b>	<b>₱8,838,414,099</b>	<b>₱57,939,267,640</b>
Additions	<b>175,612,905</b>	<b>991,823,804</b>	<b>937,226,418</b>	<b>2,104,663,127</b>
Completed projects transferred from shopping mall complex under construction (see Note 10)	<b>356,475,020</b>	<b>4,146,650,066</b>	<b>563,532,182</b>	<b>5,066,657,268</b>
Balance at end of year	<b>8,411,524,163</b>	<b>46,359,891,173</b>	<b>10,339,172,699</b>	<b>65,110,588,035</b>
<b>Accumulated Depreciation</b>				
Balance at beginning of year	-	<b>6,943,622,038</b>	<b>3,920,774,413</b>	<b>10,864,396,451</b>
Depreciation	-	<b>1,581,672,006</b>	<b>679,251,368</b>	<b>2,260,923,374</b>
Balance at end of year	-	<b>8,525,294,044</b>	<b>4,600,025,781</b>	<b>13,125,319,825</b>
<b>Net Book Value</b>	<b>₱8,411,524,163</b>	<b>₱37,834,597,129</b>	<b>₱5,739,146,918</b>	<b>₱51,985,268,210</b>

2006				
	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
<b>Cost</b>				
Balance at beginning of year	₱7,300,356,052	₱28,177,412,861	₱6,615,135,820	₱42,092,904,733
Additions	62,226,211	241,104,350	534,846,678	838,177,239
Completed projects transferred from shopping mall complex under construction (see Note 10)	516,853,975	12,802,900,092	1,688,431,601	15,008,185,668
<b>Balance at end of year</b>	<b>7,879,436,238</b>	<b>41,221,417,303</b>	<b>8,838,414,099</b>	<b>57,939,267,640</b>
<b>Accumulated Depreciation</b>				
Balance at beginning of year	-	5,855,253,184	3,222,028,899	9,077,282,083
Depreciation	-	1,088,368,854	698,745,514	1,787,114,368
<b>Balance at end of year</b>	<b>-</b>	<b>6,943,622,038</b>	<b>3,920,774,413</b>	<b>10,864,396,451</b>
<b>Net Book Value</b>	<b>₱7,879,436,238</b>	<b>₱34,277,795,265</b>	<b>₱4,917,639,686</b>	<b>₱47,074,871,189</b>

The fair value of investment properties as of December 31, 2006 as determined by an independent appraiser amounted to ₱175,311 million. The valuation of investment properties was based on market values. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

#### 10. Shopping Mall Complex Under Construction

The movements of this account follow:

	2007	2006
Balance at beginning of year	<b>₱4,595,222,248</b>	₱12,364,828,436
Additions	<b>5,941,478,197</b>	7,238,579,480
Completed projects transferred to investment properties (see Note 9)	<b>(5,066,657,268)</b>	(15,008,185,668)
<b>Balance at end of year</b>	<b>₱5,470,043,177</b>	<b>₱4,595,222,248</b>

In 2007, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Marikina and SM North EDSA Expansion.

In 2006, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Bacolod, SM City Cebu Expansion, SM City Marikina, SM City Taytay and SM Supercenter Muntinlupa.

Shopping mall under construction includes cost of land amounting to ₱2,210 million and ₱2,153 million as of December 31, 2007 and 2006, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱3,048 million and ₱3,812 million as of December 31, 2007 and 2006, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of December 31, 2007 and 2006 are valued at ₱1,303 million and ₱1,979 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱1,131 million and ₱1,285 million in 2007 and 2006, respectively. Capitalization rates used were 9.01% in 2007 and 10.04% in 2006.

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#### 11. Available-for-Sale Investments

This account consists of investments in redeemable preferred shares issued by local entities with annual dividend rates of 6.5% to 8.25% in 2007 and 6.5% to 10.46% in 2006. The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. The shares are mandatorily redeemable in 2009 up to 2011. Preferred shares amounting to ₱1,500 million and ₱1,000 million, with an annual dividend rate of 10.46%, were early redeemed in July 2007 and August 2007, respectively.

AFS investments include unrealized gain amounting to ₱58 million and ₱219 million as of December 31, 2007 and 2006, respectively. The amount is deferred under equity, net of deferred tax liability amounting to ₱17 million and ₱66 million, respectively.

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#### 12. Loans Payable

Loans payable consist of unsecured Philippine peso-denominated and U.S. dollar-denominated loans obtained from banks amounting to ₱400 million and ₱191 million (US\$4.6 million), respectively, as of December 31, 2007 and ₱2,240 million and ₱5,788 million (US\$118 million), respectively, as of December 31, 2006. The loans bear interest ranging from 4.9% to 5.6% in 2007 and 5.3% to 6.8% in 2006.

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#### 13. Accounts Payable and Other Current Liabilities

This account consists of:

	2007	2006
Trade	<b>₱1,329,439,987</b>	₱988,319,052
Accrued interest (see Notes 12, 14 and 19)	<b>291,809,945</b>	315,118,983
Accrued operating expenses and others (see Note 19)	<b>1,125,123,296</b>	694,266,773
	<b>₱2,746,373,228</b>	₱1,997,704,808

Trade payables are noninterest-bearing and are normally settled within a 30-day term.

Accrued interest and accrued operating expenses and others are normally settled throughout the financial year.

#### 14. Long-term Debt

This account consists of:

	2007	2006
<b>Parent Company:</b>		
U.S. dollar-denominated five-year syndicated loan	<b>₱6,103,973,522</b>	₱7,247,365,206
<b>Philippine peso-denominated loans:</b>		
Five-year floating rate notes	<b>3,970,505,799</b>	–
Five-year bilateral loan	<b>2,980,917,334</b>	2,975,283,692
Five-year syndicated loan	<b>423,120,933</b>	846,071,043
Five-year and seven-year fixed rate notes	–	2,972,542,654
Other bank loans	<b>2,186,907,500</b>	2,717,265,000
<b>Subsidiaries:</b>		
<b>Philippine peso-denominated loans:</b>		
Five-year syndicated loans	<b>691,645,967</b>	1,086,369,736
Five-year bilateral loan	<b>248,100,000</b>	–
	<b>16,605,171,055</b>	17,844,897,331
Less current portion	<b>840,625,000</b>	825,000,000
	<b>₱15,764,546,055</b>	₱17,019,897,331

#### Parent Company

##### U.S. Dollar-denominated Five-Year Syndicated Loan

The US\$150 million unsecured loan was obtained on October 18, 2004 and will mature on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on London Inter-Bank Offered Rate (LIBOR) plus a certain percentage. On May 18, 2007, the original facility agreement was amended which effectively reduced the interest rate by 1% (see Note 22).

##### Philippine Peso-denominated Five-Year Floating Rate Notes

This represents a five-year bullet term loan obtained on June 18, 2007 and July 9, 2007 amounting to ₱4,000 million and will mature on June 19, 2012. The loan carries an interest rate based on PDST-F plus an agreed margin.

##### Philippine Peso-denominated Five-Year Bilateral Loan

This represents a five-year bullet term loan obtained on June 21, 2006 amounting to ₱3,000 million and will mature on June 21, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin.

##### Philippine Peso-denominated Five-Year Syndicated Loan

This represents a five-year syndicated term loan obtained on November 21, 2003, originally amounting to ₱1,700 million, payable in equal quarterly installments of ₱106 million starting February 2005 up to November 2008 and bears a fixed interest rate of 8% payable quarterly. Starting April 2007, the fixed interest rate of 8% was reduced to 7.0625%.

Philippine Peso-denominated Five-Year and Seven-Year Fixed Rate Notes

This represents a five-year and seven-year fixed rate notes obtained on July 8, 2005 amounting to ₱3,500 million (₱2,000 million of which was obtained from SMIC) and ₱1,500 million, respectively. The loans bear fixed interest rates of 10.535% and 11.562%, and will mature on July 8, 2010 and 2012, respectively (see Notes 19 and 22).

In July 2007 and December 2006, the Company prepaid the ₱3,000 million and ₱2,000 million (held by SMIC with an original maturity date of July 8, 2010) notes, respectively. The related unamortized balance of debt issuance costs charged off to profit or loss amounted to ₱24 million.

Other Bank Loans

This account consists of the following:

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 22).
- Five-year bullet loan obtained on October 2, 2006 amounting to ₱1,000 million and will mature on October 2, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin.
- Two-year and five-year unsecured loans obtained on December 1, 2004 amounting to ₱466 million and ₱534 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively. The ₱466 million loan matured on December 1, 2006. The Company prepaid the ₱534 million loan on June 1, 2007, with an original maturity date of December 1, 2009. The related unamortized balance of debt issuance costs charged off to profit or loss amounted to ₱1 million.

Subsidiaries

Philippine Peso-denominated Five-Year Syndicated Loans

In 2004, CPDC and PSC obtained a five-year term loan, which originally amounted to ₱1,600 million, to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100 million starting in October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. Starting April 2007, the fixed interest rate of 9.66% was reduced to 6.75%.

Philippine Peso-denominated Five-Year Bilateral Loan

This represents a five-year loan term obtained on September 28, 2007 and November 6, 2007 amounting to ₱250 million to finance the construction of a project called San Miguel by the Bay. The loan is payable in equal quarterly installments of ₱15.6 million starting in December 2008 up to September 2012 and carries an interest rate based on PDST-F plus an agreed margin.

As of December 31, 2007 and 2006, investments held for trading and temporary investments totaling ₱1,388 million and ₱1,761 million, respectively, were pledged to secure the loans in compliance with the requirements of the Bangko Sentral ng Pilipinas (BSP). In accordance with the loan agreement, the Parent Company has the option to substitute the pledged investments held for trading and temporary investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 19).

The re-pricing frequencies of floating rate loans range from three to six months.

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2007 and 2006, the Company is in compliance with the terms of its loan covenants.

Long-term debt is net of unamortized debt issuance costs amounting to ₱162 million and ₱194 million as of December 31, 2007 and 2006, respectively. Amortization of debt issuance costs amounted to ₱78 million and ₱68 million in 2007 and 2006, respectively.

#### Repayment Schedule

Repayments of long-term debt are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2008	₱840,625,000
2009	6,554,500,000
2010	62,500,000
2011	4,062,500,000
2012	4,046,875,000
2016	1,200,000,000
	<u>₱16,767,000,000</u>

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### 15. Stockholders' Equity

The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares as of December 31, 2007 and 2006 are 12,435,294,157 shares and 9,935,294,157 shares, respectively.

On April 23, 2007, the BOD and the stockholders approved the increase in authorized capital stock from ₱10,000 million, divided into 10,000,000,000 shares, to ₱20,000 million, divided into 20,000,000,000 shares with a par value of ₱1 a share. The BOD and the stockholders likewise approved the declaration of a 25% stock dividend or approximately 2,500 million shares to all stockholders to be issued from the increased authorized capital stock. These were subsequently approved by the SEC on May 29, 2007 and the stock dividends were issued on July 24, 2007.

The retained earnings account is restricted for the payment of dividends to the extent of ₱2,876 million and ₱2,942 million as of December 31, 2007 and 2006, respectively, representing the cost of shares held in treasury (₱101 million in 2007 and 2006) and accumulated equity in net earnings of the subsidiaries totaling ₱2,775 million and ₱2,841 million as of December 31, 2007 and 2006, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

Treasury stock, totaling 18,857,000 shares, is stated at acquisition cost.



## 16. Operating Expenses

This account consists of the following expenses incurred in operating the investment properties:

	2007	2006	2005
Depreciation (see Note 9)	<b>₱2,260,923,374</b>	₱1,787,114,368	₱1,457,685,076
Administrative (see Notes 18, 19 and 20)	<b>1,712,653,932</b>	1,587,912,907	1,638,621,352
Film rentals	<b>965,464,907</b>	846,217,683	687,859,433
Business taxes and licenses	<b>775,740,702</b>	608,818,441	498,370,891
Others (see Note 19)	<b>906,628,129</b>	735,186,422	567,302,088
	<b>₱6,621,411,044</b>	₱5,565,249,821	₱4,849,838,840

## 17. Income Tax

The components of deferred tax assets and liabilities follow:

	2007	2006
Deferred tax assets -		
Accrued expenses, unrealized foreign exchange loss and others	<b>₱40,081,403</b>	₱32,072,923
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others - net	<b>₱836,818,110</b>	₱722,857,915

The reconciliation of statutory tax rates to effective tax rates follows:

	2007	2006	2005
Statutory tax rates	<b>35.0%</b>	35.0%	32.5%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	<b>(2.7)</b>	(3.8)	(5.1)
Change in enacted tax rates and others	<b>(2.8)</b>	(3.1)	(2.8)
Effective tax rates	<b>29.5%</b>	28.1%	24.6%

## 18. Pension Cost

The following tables summarize the components of the Company's pension plan:

### Net Pension Cost

	2007	2006	2005
Current service cost	<b>₱2,518,520</b>	₱582,378	₱388,003
Interest cost on benefit obligation	<b>1,544,607</b>	640,148	453,107
Expected return on plan assets	<b>(593,527)</b>	(398,371)	(262,914)
Net actuarial loss (gain) recognized	<b>368,777</b>	7,799	(17,516)
<b>Net pension cost</b>	<b>₱3,838,377</b>	₱831,954	₱560,680
<b>Actual return on plan assets</b>	<b>₱619,837</b>	₱290,949	₱312,990

### Net Pension Liability

	2007	2006	2005
Defined benefit obligation	<b>₱24,632,241</b>	₱18,632,172	₱5,334,567
Fair value of plan assets	<b>(7,706,515)</b>	(4,946,058)	(3,319,755)
Unfunded obligation	<b>16,925,726</b>	13,686,114	2,014,812
Unrecognized net actuarial losses	<b>(14,509,600)</b>	(12,926,517)	(751,815)
<b>Net pension liability</b>	<b>₱2,416,126</b>	₱759,597	₱1,262,997

The above amounts of net pension liability were not recognized in the books due to immateriality.

The changes in the present value of the defined benefit obligation follow:

	2007	2006	2005
Defined benefit obligation, January 1	<b>₱18,632,172</b>	₱5,334,567	₱3,236,475
Interest cost on benefit obligation	<b>1,544,607</b>	640,148	453,107
Current service cost	<b>2,518,520</b>	582,378	388,003
Benefits paid	<b>(41,228)</b>	–	(359,017)
Actuarial losses on obligation	<b>1,978,170</b>	12,075,079	1,615,999
<b>Defined benefit obligation, December 31</b>	<b>₱24,632,241</b>	₱18,632,172	₱5,334,567

The changes in the fair value of plan assets follow:

	2007	2006	2005
Fair value of plan assets, January 1	<b>₱4,946,058</b>	₱3,319,755	₱2,190,948
Expected return on plan assets	<b>593,527</b>	398,371	262,914
Benefits paid	<b>(41,228)</b>	–	(359,017)
Contributions	<b>2,181,848</b>	1,335,354	1,174,834
Actuarial gains (losses)	<b>26,310</b>	(107,422)	50,076
<b>Fair value of plan assets, December 31</b>	<b>₱7,706,515</b>	₱4,946,058	₱3,319,755

The Company expects to contribute ₱2 million to its defined benefit pension plan in 2008.

The plan assets are composed mainly of cash and cash equivalents, investments in government securities and other similar debt instruments.

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	<b>2007</b>	2006	2005
Discount rate	<b>8.3%</b>	8.3%	12.0%
Expected rate of return on plan assets	<b>6.0%</b>	12.0%	12.0%
Future salary increases	<b>10.0%</b>	10.0%	10.0%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period within which the obligation is to be settled.

The amounts for the current and previous two years are as follows:

	<b>2007</b>	2006	2005
Defined benefit obligation	<b>₱24,549,785</b>	₱18,632,172	₱5,334,567
Plan assets	<b>7,624,059</b>	4,946,058	3,319,755
Deficit	<b>16,925,726</b>	13,686,114	2,014,812
Experience adjustments on plan liabilities	<b>1,895,714</b>	12,075,079	1,615,999
Experience adjustments on plan assets	<b>56,146</b>	107,422	(50,076)

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## 19. Related Party Disclosures

The significant related party transactions entered into by the Company and the amounts included in the consolidated financial statements with respect to such transactions follow:

- a. The Company has existing lease agreements with the SM Retail Group and SM Banking Group. Total rent revenue amounted to ₱4,146 million, ₱3,513 million and ₱2,904 million in 2007, 2006 and 2005, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱947 million and ₱835 million as of December 31, 2007 and 2006, respectively.
- b. The Company leases the land where two of its malls are located from SMIC and Shoemart, Inc. for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and Shoemart, Inc. a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱164 million, ₱105 million and ₱46 million in 2007, 2006 and 2005, respectively. Rent payable to SMIC and Shoemart, Inc., included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱16 million as of December 31, 2007 and 2006, respectively.

- c. The Company pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under "Operating expenses" account in the consolidated statements of income, amounted to ₱473 million, ₱403 million and ₱324 million in 2007, 2006 and 2005, respectively. Accrued management fees, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱61 million and ₱18 million as of December 31, 2007 and 2006, respectively.
- d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group. Cash and cash equivalents and investments held for trading totalled ₱2,115 million and ₱7,581 million as of December 31, 2007 and 2006, respectively. Pledged investments held for trading of ₱1,388 million and ₱1,761 million as of December 31, 2007 and 2006, respectively, are deposited with Banco de Oro (BDO) (see Note 14). Interest income amounted to ₱386 million, ₱376 million and ₱427 million in 2007, 2006 and 2005, respectively. Accrued interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱16 million and ₱96 million as of December 31, 2007 and 2006, respectively.
- e. As of December 31, 2007 and 2006, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱367 million and ₱1,922 million, respectively. Interest expense amounted to ₱115 million, ₱393 million and ₱326 million in 2007, 2006 and 2005, respectively. Accrued interest payable, included under "Accounts payable and other current liabilities" account in the consolidated balance sheets, amounted to ₱3 million and ₱12 million as of December 31, 2007 and 2006, respectively.
- f. As of December 31, 2007 and 2006, a portion of AFS financial assets amounting to ₱2,116 million and ₱2,405 million pertains to mandatorily redeemable preferred shares of BDO (see Note 11). Interest income amounted to ₱138 million, ₱160 million and ₱176 million in 2007, 2006 and 2005, respectively. Interest receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱95 million and ₱282 million as of December 31, 2007 and 2006, respectively.
- g. The total compensation paid to key management personnel of the Company amounted to ₱16 million, ₱13 million and ₱10 million in 2007, 2006 and 2005, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

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## 20. Lease Agreements

The Company's lease agreements with its tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated with reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

The Company also leases certain parcels of land where some of its malls are constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the Company's gross rental income or a certain fixed amount, whichever is higher.

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## 21. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise of bank loans, AFS financial assets, investments held for trading and cash and cash equivalents. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as rent receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally interest rate swaps and cross currency swaps. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's BOD and management review and agree on the policies for managing each of these risks as summarized below.

### Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to the Company's financial instruments with a floating interest rate and fixed interest rate. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 6, 11, 12 and 14.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2007 and 2006, after taking into account the effect of interest rate swaps, approximately 51% and 61% respectively, of the Company's long-term borrowings are at a fixed rate of interest.

Interest Rate Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax. The impact on the Company's equity is immaterial.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
<b>2007</b>	100	(P21,421,186)
	50	(10,620,593)
	(100)	21,421,186
	(50)	10,620,593
2006	100	(28,998,203)
	50	(14,499,101)
	(100)	28,998,203
	(50)	14,499,101

The Company's long-term debt, presented by maturity profile, that are exposed to interest rate risk are as follows:

	2007							Total	Debt Issuance	Carrying Value
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years				
Fixed rate:										
Philippine peso-denominated five-year syndicated loan	<b>₱825,000,000</b>	<b>₱300,000,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,125,000,000</b>	<b>(₱10,233,100)</b>	<b>₱1,114,766,900</b>	
Interest rate	6.75% - 7.06%	6.75%								
Other bank loans	-	-	-	-	-	1,200,000,000	1,200,000,000	(9,342,500)	1,190,657,500	
Interest rate						9.75%				
Floating rate:										
U.S. dollar-denominated five-year syndicated loan	<b>\$-</b>	<b>\$150,000,000</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>6,192,000,000</b>	<b>(88,026,478)</b>	<b>6,103,973,522</b>	
Interest rate		LIBOR+margin%								
Philippine peso-denominated five-year floating rate loan	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱4,000,000,000</b>	<b>₱-</b>	<b>4,000,000,000</b>	<b>(29,494,201)</b>	<b>3,970,505,799</b>	
Interest rate					PDST-F+margin%					
Philippine peso-denominated five-year bilateral loan	<b>₱15,625,000</b>	<b>₱62,500,000</b>	<b>₱62,500,000</b>	<b>₱3,062,500,000</b>	<b>₱46,875,000</b>	<b>₱-</b>	<b>3,250,000,000</b>	<b>(20,982,666)</b>	<b>3,229,017,334</b>	
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Other bank loans	-	-	-	-	₱1,000,000,000	-	1,000,000,000	(3,750,000)	996,250,000	
Interest rate					PDST-F+margin%					
							<b>₱16,767,000,000</b>	<b>(₱161,828,945)</b>	<b>₱16,605,171,055</b>	
2006										
	1-<2 years	2-<3 years	3-<4 years	4-<5 years	5-<6 years	6-<7 years	>7 years	Total	Debt Issuance	Carrying Value
Fixed rate:										
Philippine peso-denominated five-year and seven-year fixed rate notes	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,500,000,000</b>	<b>₱-</b>	<b>₱1,500,000,000</b>	<b>₱-</b>	<b>₱3,000,000,000</b>	<b>(₱27,457,346)</b>	<b>₱2,972,542,654</b>
Interest rate				10.54%		11.56%				
Philippine peso-denominated five-year syndicated loan	825,000,000	825,000,000	300,000,000	-	-	-	-	1,950,000,000	(17,559,221)	1,932,440,779
Interest rate	8.00-9.66%	8.00-9.66%	9.66%							
Other bank loans	-	-	534,000,000	-	-	-	1,200,000,000	1,734,000,000	(11,985,000)	1,722,015,000
Interest rate			12.54%				9.75%			
Floating rate:										
US dollar-denominated five-year syndicated loan	<b>\$-</b>	<b>\$-</b>	<b>\$150,000,000</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>7,354,500,000</b>	<b>(107,134,794)</b>	<b>7,247,365,206</b>
Interest rate			LIBOR+margin%							
Philippine peso-denominated five-year bilateral loan	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱3,000,000,000</b>	<b>₱-</b>	<b>₱-</b>	<b>3,000,000,000</b>	<b>(24,716,308)</b>	<b>2,975,283,692</b>
Interest rate					Mart 1+margin%					
Other bank loans	-	-	-	-	1,000,000,000	-	-	1,000,000,000	(4,750,000)	995,250,000
Interest rate					Mart 1+margin%					
								<b>₱18,038,500,000</b>	<b>(₱193,602,669)</b>	<b>₱17,844,897,331</b>

\* SGVMC210663 \*

Foreign Currency Risk

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱3,687 million (US\$89 million) and ₱3,665 million (US\$89 million) as of December 31, 2007, respectively, and ₱9,723 million (US\$198 million) and ₱9,710 million (US\$198 million) as of December 31, 2006, respectively.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱41.28 to US\$1.00 and ₱49.03 to US\$1.00, the Philippine peso to U.S. dollar exchange rates as of December 31, 2007 and 2006, respectively.

To manage foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, the Company enters into foreign currency swaps aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on operating results and cash flows.

The following table demonstrates the sensitivity to a reasonably possible change in US\$ exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Increase (Decrease) in ₱ to US\$ rate	Effect on Income before Income Tax
<b>2007</b>	₱1.50	(₱14,474,864)
	1.00	(9,649,909)
	(1.50)	14,474,864
	(1.00)	9,649,909
 2006	 1.50	 (12,993,537)
	1.00	(8,662,358)
	(1.50)	12,993,537
	(1.00)	8,662,358

The increase in ₱ to US\$ rate means stronger peso against the U.S. dollar while a decrease in ₱ to US\$ means stronger U.S. dollar against the peso.

Credit Risk

It is the Company's policy that all prospective tenants are subject to screening procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Given the Company's diverse base of tenants, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, investments held for trading, AFS financial assets and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 22.

Since the Company trades only with recognized third parties, there is no requirement for collateral.



Liquidity Risk

The Company seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. The Company's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	2007			Total
	Less than 12 Months	2 to 5 Years	More than 5 Years	
Loans payable	<b>₱590,920,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱590,920,000</b>
Accounts payable and other current liabilities	<b>2,746,373,228</b>	-	-	<b>2,746,373,228</b>
Long-term debt (including current portion)	<b>840,625,000</b>	<b>14,726,375,000</b>	<b>1,200,000,000</b>	<b>16,767,000,000</b>
Derivative liability	-	<b>1,768,518,516</b>	-	<b>1,768,518,516</b>
Tenants' deposits and others	-	<b>4,331,546,418</b>	-	<b>4,331,546,418</b>
	<b>₱4,177,918,228</b>	<b>₱20,826,439,934</b>	<b>₱1,200,000,000</b>	<b>₱26,204,358,162</b>

	2006			Total
	Less than 12 Months	2 to 5 Years	More than 5 Years	
Loans payable	<b>₱8,027,991,500</b>	<b>₱-</b>	<b>₱-</b>	<b>₱8,027,991,500</b>
Accounts payable and other current liabilities	<b>1,997,704,808</b>	-	-	<b>1,997,704,808</b>
Long-term debt (including current portion)	<b>825,000,000</b>	<b>14,513,500,000</b>	<b>2,700,000,000</b>	<b>18,038,500,000</b>
Derivative liability	-	<b>1,042,500,665</b>	-	<b>1,042,500,665</b>
Tenants' deposits and others	-	<b>3,944,282,568</b>	-	<b>3,944,282,568</b>
	<b>₱10,850,696,308</b>	<b>₱19,500,283,233</b>	<b>₱2,700,000,000</b>	<b>₱33,050,979,541</b>

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors its capital gearing by measuring the ratio of interest-bearing debt to total capital and net interest-bearing debt to total capital. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents, investments held for trading and AFS investments.

As of December 31, 2007 and 2006, the Company's ratio of interest-bearing debt to total capital and ratio of net interest-bearing debt to total capital are as follows:

Interest-bearing Debt to Total Capital

	2007	2006
Loans payable	<b>₱590,920,000</b>	₱8,027,991,500
Current portion of long-term debt	<b>840,625,000</b>	825,000,000
Long-term debt - net of current portion	<b>15,764,546,055</b>	17,019,897,331
Total interest-bearing debt (a)	<b>17,196,091,055</b>	25,872,888,831
Total equity attributable to equity holders of the Parent	<b>38,857,630,140</b>	35,672,432,648
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	<b>₱56,053,721,195</b>	₱61,545,321,479
Gearing ratio (a/b)	<b>31%</b>	42%

Net Interest-bearing Debt to Total Capital

	2007	2006
Loans payable	<b>₱590,920,000</b>	₱8,027,991,500
Current portion of long-term debt	<b>840,625,000</b>	825,000,000
Long-term debt - net of current portion	<b>15,764,546,055</b>	17,019,897,331
Less cash and cash equivalents, investments held for trading and AFS investments	<b>(4,482,883,430)</b>	(13,145,596,283)
Total net interest-bearing debt (a)	<b>12,713,207,625</b>	12,727,292,548
Total equity attributable to equity holders of the Parent	<b>38,857,630,140</b>	35,672,432,648
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	<b>₱51,570,837,765</b>	₱48,399,725,196
Gearing ratio (a/b)	<b>25%</b>	26%

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**22. Financial Instruments**

Carrying Values

The table below presents the carrying values of the Company's financial instruments by category as of December 31:

	2007	2006
<b>Financial Assets</b>		
Financial assets at FVPL	<b>₱496,936,704</b>	₱1,060,034,250
Loans and receivables	<b>2,896,342,346</b>	2,764,804,645
AFS investments	<b>2,218,254,419</b>	5,270,194,577
<b>Financial Liabilities</b>		
Financial liabilities at FVPL	<b>1,768,518,516</b>	1,042,500,665
Other financial liabilities	<b>24,274,010,701</b>	31,814,876,207

\* SGVMC210663 \*

Fair Values

The table below presents a comparison by class of the carrying amounts and fair values of all of the Company's financial instruments as of December 31:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	<b>₱2,114,940,507</b>	<b>₱2,114,940,507</b>	₱7,581,307,508	₱7,581,307,508
Investments held for trading	<b>149,688,504</b>	<b>149,688,504</b>	294,094,198	294,094,198
Receivables	<b>2,896,342,346</b>	<b>2,896,342,346</b>	2,764,804,645	2,764,804,645
Derivative assets	<b>347,248,200</b>	<b>347,248,200</b>	765,940,052	765,940,052
AFS investments	<b>2,218,254,419</b>	<b>2,218,254,419</b>	5,270,194,577	5,270,194,577
<b>Financial Liabilities</b>				
Loans payable	<b>590,920,000</b>	<b>590,920,000</b>	8,027,991,500	8,027,991,500
Accounts payable and other current liabilities	<b>2,746,373,228</b>	<b>2,746,373,228</b>	1,997,704,808	1,997,704,808
Long-term debt (including current portion)	<b>16,605,171,055</b>	<b>17,184,441,058</b>	17,844,897,331	19,184,148,588
Derivative liability	<b>1,768,518,516</b>	<b>1,768,518,516</b>	1,042,500,665	1,042,500,665
Tenants' deposits and others	<b>4,331,546,418</b>	<b>4,199,373,457</b>	3,944,282,568	3,894,978,926

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:

*Cash and Cash Equivalents.* The carrying amount reported in the consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

*Investments Held for Trading.* The fair values are the quoted market prices of the instruments at balance sheet date.

*Receivables.* The net carrying value approximates the fair value due to the short-term maturities of the receivables.

*AFS Investments.* The fair value of investments in mandatorily redeemable preferred shares where there is no active market is based on the present value of future cash flows discounted at prevailing interest rates. Discount rates used range from 6.19% to 7.95% as of December 31, 2007 and 6.97% to 7.98% as of December 31, 2006.

*Loans Payable and Accounts Payable and Other Current Liabilities.* The carrying values reported in the consolidated balance sheets approximate the fair values due to the short-term maturities of these liabilities.

*Long-term Debt.* Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 5.18% to 7.36% as of December 31, 2007 and 5.94% to 7.35% as of December 31, 2006.
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular repricing based on current market rates. For variable rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rate used was 5.20% as of December 31, 2007 and 6.99% as of December 31, 2006.

*Tenants' Deposits and Others.* Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 6.67% to 6.76% as of December 31, 2007 and 6.60% to 6.69% as of December 31, 2006.

*Derivative Instruments.* The fair values of the interest rate swaps, cross currency swaps and currency options are based on quotes obtained from counterparties.

Derivative Financial Instruments

To address the Company's exposure to market risk for changes in interest rates primarily to long-term floating rate debt obligations and manage its foreign exchange risks, the Company entered into various derivative transactions such as cross currency swaps, interest rate swaps and currency options.

The table below shows information on the Company's cross currency and interest rate swaps presented by maturity profile.

	2007	
	<1 year	>1-<2 years
Cross-Currency Swaps		
Floating-Fixed:		
Notional amount	\$70,000,000	\$70,000,000
Receive-floating rate	6 months	6 months
Pay-fixed rate	LIBOR+margin%	LIBOR+margin%
Weighted swap rate	12.58-12.75%	12.58-12.75%
	P56.31	P56.31
Interest Rate Swap		
Floating-Fixed:		
Notional amount	\$80,000,000	\$80,000,000
Receive-floating rate	6 months	6 months
Pay-fixed rate	LIBOR+margin%	LIBOR+margin%
	5.34%	5.34%

	2006						
	<1	>1-	>2-	>3-	>4-	>5	
<b>Cross-Currency Swaps</b>							
Floating-Fixed:							
Notional amount	\$70,000,000	\$70,000,000	\$70,000,000				
Receive-floating rate	6.1	6.1	6.1				
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%				
Pay-fixed rate	12.4	12.4	12.4				
Weighted swap rate	₱56.3	₱56.3	₱56.3				
<b>Interest Rate Swap</b>							
Floating-Fixed:							
Notional amount	\$80,000,000	\$80,000,000	\$80,000,000				
Receive-floating rate	6.1	6.1	6.1				
	LIBOR+margin%	LIBOR+margin%	LIBOR+margin%				
Pay-fixed rate	5.2	5.2	5.2				
Fixed - Floating:							
Notional amount	₱3,750,000,000	₱3,750,000,000	₱3,750,000,000	₱3,750,000,000	₱1,500,000,000	₱1,500,000,000	
Receive-fixed rate	10.2	10.2	10.2	10.2	11.2	11.2	
Pay-floating rate	3.1	3.1	3.1	3.1	3.1	3.1	
	Mart 1+	Mart 1+	Mart 1+	Mart 1+	Mart 1+	Mart 1+	Mart 1+

*Cross Currency Swaps.* In 2004, the Parent Company entered into cross currency swap agreements with an aggregate notional amount of US\$70 million and weighted average swap rate of ₱56.31 to US\$1. Under these agreements, the Parent Company effectively swaps the principal amount and interest of the U.S. dollar-denominated five-year syndicated loan into Philippine peso-denominated loans with payments up to October 2009. As of December 31, 2007 and 2006, the cross currency swaps have negative fair values of ₱1,496 million and ₱1,042 million, respectively.

*Interest Rate Swaps.* Also in 2004, the Parent Company entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$80 million. Under these agreements, the Parent Company effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009. As of December 31, 2007 and 2006, the floating to fixed interest rate swaps have positive fair values of ₱20 million and ₱149 million, respectively.

In 2005, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱3,750 million. Under these agreements, the Parent Company effectively swaps these fixed rate Philippine peso-denominated five-year and seven-year syndicated fixed rate notes into floating rate loans based on Mart 1 plus an agreed margin with semi-annual payment intervals up to July 2012. As of December 31, 2006, the fixed to floating interest rate swaps have positive fair values of ₱577 million. As discussed in Note 14, in June 2007, as a result of the prepayment of the underlying obligation, the related interest rate swap was also terminated with net proceeds amounting to ₱438 million and realized loss of ₱139 million.

*Foreign Currency Call Options.* To manage the interest expense on the loans and the hedging costs of the cross currency swaps mentioned above, the Parent Company entered into the following cost reduction trades:

Trade Dates	Start Dates	Notional Amount	Strike Rates	Premium (p.a.)	Payment Dates
January 25, 2007	January 25, 2007	₱3,942,000,000	₱52 (US\$1.00)	1.00%	October 18, 2007 April 18, 2008
June 27, 2007	April 18, 2007	₱3,942,000,000	₱49 (US\$1.00)	1.00%	October 18, 2007 April 18, 2008 June 30, 2008
June 27, 2007	February 15, 2007	₱1,200,000,000	₱49 (US\$1.00)	1.00%	February 15, 2008 June 30, 2008

In these trades, the Parent Company will receive a premium equivalent to 1.0% savings per annum on the notional amounts. However, should the USD/PHP exchange rate trade above the strike price on the two dates, the Parent Company will have to pay a penalty based on an agreed formula. As of December 31, 2007 and 2006, the positive fair value of the currency option is ₱55 million and ₱40 million, respectively.

*Non-deliverable Forwards.* In 2007, the Parent Company entered into forward contracts to sell ₱ and buy US\$ with different counterparties at an aggregate notional amount of US\$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US\$160 million. The average forward rates range from ₱41.05 to ₱46.53, which matures in various dates in 2008. Also in 2007, the Parent Company entered into forward contracts to sell US\$ and buy ₱ with different counterparties at an aggregate notional amount of US\$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US\$160 million. The average forward rates range from ₱41.31 to ₱46.68, which matures in various dates in 2008. As of December 31, 2007, the net fair value of the above forward contracts is immaterial. The Parent Company recognized derivative asset and derivative liability amounting to ₱272 million from these forward contracts.

The net unrealized marked-to-market loss on derivative transactions, shown as part of “Amusement and others” account in the consolidated statements of income, amounted to ₱568 million and ₱277 million for the years ended December 31, 2007 and 2006, respectively.

#### Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments as of December 31 are as follows:

	2007	2006
Balance at beginning of year	(₱276,560,613)	₱-
Net changes in fair value during the year	(567,691,997)	(276,560,613)
Fair value of settled contracts	(577,017,706)	
Balance at end of year	(₱1,421,270,316)	(₱276,560,613)

### 23. Basic/Diluted EPS Computation

Basic EPS is computed as follows:

	2007	2006	2005
Net income attributable to equity holders of the Parent (a)	₱5,974,985,672	₱5,448,922,555	₱4,972,905,620
Common shares issued at beginning of year	9,935,294,157	9,935,294,157	9,935,294,157
Effect of stock dividends in 2007 (see Note 15)	2,500,000,000	2,500,000,000	2,500,000,000
Common shares issued at end of year	12,435,294,157	12,435,294,157	12,435,294,157
Less weighted average number of treasury shares acquired during the year	18,857,000	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	12,416,437,157	12,416,437,157	12,416,437,157
Earnings per share (a/b)	₱0.4	₱0.4	₱0.4

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**24. Other Matters**

- a. On November 13, 2007, the BOD approved the Parent Company's acquisition of 100% of the outstanding common shares of Affluent Capital Enterprises (Affluent) and MegaMake Enterprise Limited (MegaMake), holding companies of the three SM Malls in China, in exchange for the Parent Company's common shares with a valuation based on the 30-day volume weighted average price of the Parent Company.

As of February 7, 2008, the Parent Company has yet to execute the relevant documents with Grand China Oriental Limited and Oriental Land Development Limited for the exchange of Affluent and MegaMake shares of stock valued at ₱10,827 million equivalent to 913 million shares of the Parent Company's common stock to be issued upon the approval by the SEC and the PSE.

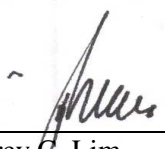
- b. The Company is involved in certain tax cases filed with the Court of Tax Appeals (CTA) relative to the deductibility of gross receipts derived from cinema ticket sales. A favorable decision was rendered by the CTA on September 22, 2006. The Bureau of Internal Revenue's (the Respondent) motion for reconsideration was denied on December 18, 2006. The Respondent has filed an appeal on January 19, 2007, which is still pending resolution as of February 7, 2008. In the opinion of management and its legal counsel, the eventual resolution of these cases will not have any material adverse effect on the consolidated financial statements.

**PART III.**

**SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on February 28, 2008.

By: **SM PRIME HOLDINGS, INC.**

  
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Jeffrey C. Lim  
Executive Vice President