COVER SHEET

0 0 0 0 8 8

SEC Registration Number

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

Building A, SM Corporate Offices, Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300

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

Mr. Jeffrey C. Lim

(Contact Person)

831-1000

(Company Telephone Number)

1 2	3 1	2 0 - I S	0 4	2 6
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

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 **0000-88**

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

6. **SM Corporate Offices, Bldg. A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City** **1300**
   Address of principal office Postal Code

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

8. **April 26, 2006, 3:00 P.M., Rigodon Ballroom, Peninsula Manila Hotel, Makati Avenue corner Ayala Avenue, Makati City**
   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 15, 2006

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	**9,935,294,157**

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

PART I.

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 26, 2006 at 3:00 p.m. at the Rigodon Ballroom, Peninsula Manila Hotel, Makati Avenue corner Ayala Avenue, Makati City. The complete mailing address of the principal office of the registrant is SM Corporate Offices, Building A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

The approximate date on which the Information Statement will be sent or given to the stockholders is on March 15, 2006.

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 27, 2006. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 9,935,294,157 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

N.A.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities And Principal Holders Thereof

(1) Security Ownership of Certain Record and Beneficial Owners

As of February 28, 2006, 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/Beneficial Owner of Common Stock and Relationship with Issuer	Citizenship	Amount and Nature of Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	**ShoeMart, Inc.,** ***(Related Company)***[1] SM Corporate Offices, Bldg D, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City	Filipino	4,757,442,398 (b)	47.88
-do-	**SM Investments Corp.** ***(Parent Company)***[2] SM Corporate Offices, Bldg A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City	Filipino	2,117,904,564 (b)	21.32
-do-	**PCD Nominee Corp.** [3] MSE Bldg., Ayala Ave., Makati City	Filipino	2,405,854,732 (r)	24.23

1. The following are the individuals holding the beneficial ownership of Shoemart, Inc.: Henry Sy, Sr., Felicidad T. Sy, Teresita T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy - 5% each.

2. The following are the individuals holding the beneficial ownership of SM Investments Corp.: Henry Sy, Sr.-19.6%, Felicidad T. Sy-11.8%, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy-9.4% each, and Teresita T. Sy-9.3%.

3. The Hongkong and Shanghai Banking Corp. Ltd.(HSBC) and Standard Chartered Bank (SCB) - Clients' Acct. holds 1,786,320,573 shares – 17.99% and 619,534,159 shares –6.24%, respectively. HSBC and SBC normally designate the Chairman of SM Prime Holdings, Inc. to exercise the voting power for these shares.

(2) Security Ownership of Management as of February 28, 2006

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship	Amount and Nature of Beneficial Ownership	Class of Securities	Percent of Class
Common	Henry Sy, Sr.	Filipino	10,000 (b)	Voting	0.00
-do-	Jose L. Cuisia, Jr.	Filipino	197,840 (b)	Voting	0.00
-do-	Senen T. Mendiola -	Filipino	510,000 (b)	Voting	0.01
-do-	Teresita T. Sy	Filipino	864,400 (b)	Voting	0.01
-do-	Henry T. Sy, Jr.	Filipino	10,000 (b)	Voting	0.00
-do-	Hans T. Sy	Filipino	10,000 (b)	Voting	0.00
-do-	Herbert T. Sy	Filipino	309,960 (b)	Voting	0.00
-do-	Elizabeth T. Sy	Filipino	1,299,000 (b)	Voting	0.01
-do-	Harley T. Sy	Filipino	419,420 (b)	Voting	0.00
-do-	Epitacio C. Borcelis	Filipino	19,600 (b)	Voting	0.00
-do-	All directors and executive officers as a group		3,650,220	Voting	0.04

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

Office	Name	Citizenship	Age
Chairman	Henry Sy, Sr.	Filipino	81
Vice Chairman	Jose L. Cuisia, Jr.	Filipino	62
Director and President	Hans T. Sy	Filipino	50
Director	Senen T. Mendiola	Filipino	79
Director and Executive Vice President	Teresita T. Sy	Filipino	55
Director and Executive Vice President	Henry T. Sy, Jr.	Filipino	52
Director	Herbert T. Sy	Filipino	49
Senior Vice President – Treasurer	Harley T. Sy	Filipino	46
Senior Vice President – Marketing	Elizabeth T. Sy	Filipino	53
Senior Vice President - Finance	Jose T. Sio	Filipino	66
Senior Vice President - Legal and Corporate Affairs	Corazon I. Morando	Filipino	64
Vice President – Finance and Administration	Jeffrey C. Lim	Filipino	44
Vice President - Assistant Corporate Secretary	Epitacio Borcelis, Jr.	Filipino	52
Corporate Secretary	Emmanuel C. Paras	Filipino	56

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 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 SEC Circular No. 16, Series of 2002 regarding the Nomination and Election of Independent Director.*

Hans T. Sy, President, has served as Director since 1994 and was Senior Vice President for Operations. As President, he oversees construction and operations of the SM Supermalls. He holds many key positions in the SM Group. He is First Executive Vice President and Director of SM Investments Corporation, Executive Vice President of Shoemart, Inc. and Vice Chairman and Director of China Banking Corporation, Director of Highlands Prime, Inc., Belle Corporation and Macroasia 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 and Executive Vice President 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 Convent, she was actively involved in ShoeMart's development. At present, she is Vice Chairman of SM Investments Corporation, Vice Chairman of Equitable PCI Bank and President of ShoeMart Inc. She is a Director of Philippine Long Distance Telephone Company and also holds board positions in several companies within the SM Group.

Henry Sy, Jr. has served as Director since 1994 and is an Executive Vice President. 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. 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, Senior Vice President of Supervalue, Inc. 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

Harley T. Sy is Senior Vice President for Treasury. He is also Director and President of SM Investments Corporation, Director of China Banking Corporation and Executive Vice President of Shoemart, Inc. He is also involved in the merchandising area of the SM Department Store, as well as retail affiliates within the SM Group. He is a graduate of the De La Salle University with a major in finance.

Elizabeth T. Sy, Senior Vice President for Marketing, is also involved in investor relations of the Company. She is also Treasurer of SM Investments Corporation and is also actively involved in the Group's tourism and leisure business endeavors, overseeing operations as well as other marketing and real estate activities.

Jose T. Sio, Senior Vice President for Finance, also holds key financial positions in the SM Group including Second Executive Vice President and Chief Financial Officer of SM Investments Corporation. He is also a Director of Banco de Oro Private Bank and Generali Pilipinas Holding Company as well as other companies within the SM Group. An MBA graduate of the New York University, he has worked in financial companies and was a senior partner of SyCip, Gorres, Velayo & Co.

Corazon I. Morando is the Senior Vice President for Legal and Corporate Affairs of the Company and SM Investments Corporation. She is also Corporate Secretary of Highlands Prime, Inc. 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.

Jeffrey C. Lim is the Vice President for Finance and Administration. 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.

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.

Epitacio Borcelis, Jr., is the Vice President and Assistant Corporate Secretary of the Company and other companies in the SM Group. He holds a Bachelor of Law degree from the University of the East.

All the Directors and executive officers of the Company 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 Senior 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:

Henry Sy, Sr.

Name of Corporation	***Position***

Name of Corporation	*Position*
SM Investments Corporation.	Chairman
Highlands Prime, Inc..	Chairman
SM Development Corporation	Chairman
Keppel Land, Inc..	President
Keppel Philippines Marine, Inc.....................................	Director
Keppel Philippines Properties, Inc..	Director
Keppel Philippines Holdings, Inc.	Director

Henry T. Sy, Jr.

Name of Corporation	*Position*
China Banking Corporation	Director
San Miguel Corporation...	Director
SM Development Corporation	Vice Chairman/Chief Executive Officer
Highlands Prime, Inc..	Vice Chairman
Belle Corporation...	Vice Chairman
SM Investments Corporation..	Director/Vice Chairman

Teresita T. Sy

Name of Corporation	*Position*
Equitable PCI Bank...	Vice Chairman
Philippine Long Distance Telephone, Inc.	Director
SM Investments Corp..	Director/Vice Chairman

Hans T. Sy

Name of Corporation	*Position*
APC Group, Inc...	Director
Belle Corporation	Director

Name of Corporation	*Position*
SM Development Corporation	Director
China Banking Corporation	Vice Chairman
Highlands Prime, Inc...	Director
SM Investments Corporation.	Director/First Executive Vice President

Harley T. Sy

Name of Corporation	*Position*
SM Investments Corp.	Director/President

Herbert T. Sy

Name of Corporation	*Position*
SM Investments Corporation	First Executive Vice President
China Banking Corporation	Director

Jose T. Sio

SM Investments Corp.	Director/Second Executive Vice President

<u>Involvement in Legal Proceedings</u>

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 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. Epitacio C. Borcelis Jr., nominated to the Board for inclusion in the Final List of Candidates for Independent Director the following stockholder:

Jose L. Cuisia, Jr.

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
Teresita T. Sy	-	Executive Vice President
Henry T. Sy, Jr. -	-	Executive Vice President
Jose T. Sio	-	Senior Vice President-Finance
Corazon I. Morando	-	Senior Vice President-Legal and Corporate Affairs
Elizabeth T. Sy -	-	Senior Vice President-Marketing
Harley T. Sy	-	Senior Vice President-Treasurer
Epitacio C. Borcelis Jr. -		Vice President & Assistant Corporate Secretary
Jeffrey C. Lim	-	Vice President-Finance and Administration
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 top five executive officers:

Name and Position	Salary	Bonus
1. Hans T. Sy President		
2. Jose T. Sio SVP – Finance		
3. Corazon I. Morando SVP - Legal and Corporate Affairs		
4. Jeffrey C. Lim VP - Finance and Administration		
5. Epitacio Borcelis, Jr. VP – Assistant Corporate Secretary		

Summary Compensation Table Aggregate compensation paid to all officers and directors as a group unnamed *(estimate)*	Year 2006	₱10,560,000	₱20,000,000
	2005	9,600,000	18,200,000
	2004	7,350,000	11,450,000
	2003	5,670,000	7,400,000

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

ITEM 7. 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 Memorandum Circular No. 8 Series of 2003 (Rotation of External Auditors), the Company will engage a new partner of SGV & Co starting year 2006. The Company has engaged Mr. Joel M. Sebastian, partner of SGV & Co, for the examination of the Company's financial statements since 2001.

The Company and its subsidiaries paid SGV & Co P1 million for external audit services for each of the years 2005 and 2004. 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 8. Employee Compensation Plans

There are no existing or planned stock options.

C. FINANCIAL AND OTHER INFORMATION

ITEM 9. Financial Statements

The Company's consolidated financial statements for the years ended December 31, 2005 and 2004 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 23 SM Supermalls.

The subsidiaries of the Company follow:

Company	Date and Place of Incorporation	Percentage of Ownership
First Asia Realty Development Corporation (FARDC)	September 7, 1987, Philippines	54.37
Premier Central, Inc.	March 16, 1998, Philippines	100.00
Consolidated Prime Dev. Corp. (CPDC)	March 25, 1998, Philippines	100.00
Premier Southern Corp. (PSC)	April 7, 1998, Philippines	100.00

The Company holds its interest in SM Megamall, SM City Dasmarinas and SM City Batangas through FARDC, CPDC and PSC, respectively. The rest of the 20 SM Supermalls are under SMPHI.

Management's Discussion and Analysis or Plan of Operation

2005

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

	Year Ended 2005		
	2005	**2004**	**Variance**
Profit & Loss Data			
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%

	December 31		
	2005	**2004**	**Variance**
Balance Sheet Data			
Total Assets	59,372	53,932	10%

Total Investment Properties	45,324	35,315	28%
Total Debt	19,943	18,440	8%
Total Stockholders' Equity	32,550	29,939	9%
Financial Ratios			
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%	
Debt to EBITDA	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 297,842 square meters. Currently, these malls have an average occupancy level of 97%.

Cinema ticket sales declined 11% 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 8% 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 30% due to the new malls which were opened in 2005. This account also includes deferred tax liability arising from capitalized interest.

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) debt to EBITDA 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. Debt to EBITDA 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, and SM City Bacolod. 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.

2004

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

	Year Ended December 31		
	2004	**2003**	**% Change**
Profit and Loss Data			
Revenues	10,209	8,802	16%
Operating expenses	4,469	3,764	18%
Operating Income	5,740	5,038	14%
Net Income	4,621	4,181	11%
EBITDA	7,075	6,108	16%

	December 31		
	2004	**2003**	**% Change**
Balance Sheet Data			
Total Assets	53,932	43,450	24%
Total Debt	18,440	6,523	183%
Total Stockholders' Equity	29,939	31,764	-6%
Financial Ratios			
Fixed Assets to Total Assets	0.65	0.71	
Current Ratio	1.48	1.82	
Debt to Equity	38 : 62	17 : 83	

	December 31	
	2004	**2003**
Return on Equity	0.15	0.13
Debt to EBITDA	2.6	1.07
EBITDA to Interest Expense	33.09	37.61
Operating Income to Revenues	0.56	0.57

Net Income to Revenues	0.45	0.47

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts P4.62 billion net income for the year ended December 31, 2004—an 11% increase from last year's same period of P4.18 billion, as reported prior to change in accounting policy as required by International Accounting Standards. Gross revenues likewise increased 16% to P10.21 billion in the year 2004 from P8.80 billion in the year 2003. Rental revenues remain the largest portion, with a 17% growth to P8.18 billion from last year's P6.98 billion. This is largely due to rentals from three additional SM Supermalls opened in the last quarter of 2003, namely SM City Lucena, SM City Baguio, and SM City Marilao, and the opening of SM City Dasmariñas and SM City Batangas in 2004.

SM City Dasmariñas and SM City Batangas opened with a gross floor area of 79,792 and 80,350 square meters, respectively. Currently, both malls have an average occupancy level of 85%.

Cinema and Amusement revenues likewise enjoyed favorable growth, with cinema revenues up by 11%, largely due to blockbuster films such as "Harry Potter 3," "The Day After Tomorrow," "Lord of the Rings 3," "Troy," and "Spiderman 2."

Operating expenses also grew 18% due to the opening of five new malls (SM City Marilao, Baguio, Lucena, Dasmariñas and Batangas). Depreciation expenses for these five new malls also contributed to this increase. Income from operations, however, remains favorable at P5.78 billion, a 15% increase from last year's P5.04 billion. Other income increased by 36% despite additional short and long-term loans due to capitalization of related interest expense to ongoing mall projects.

The financial condition of SM Prime Holdings, Inc. remains strong with a cash balance of P10.11 billion as of December 31, 2004. On the other hand, receivables increased 27% mainly due to the opening of new malls and accrued interest and dividends receivable from cash placements and investment securities, respectively.

The increase in prepaid expenses and other current assets of 50% is mainly due to accumulated input VAT of subsidiaries. These input VAT will be applied in 2005.

The increase in investment properties of 14% is mainly due to construction activities related to Mall of Asia, SM City San Lazaro, SM Valenzuela and SM City Molino which are expected to open within 2005. The increase in other noncurrent assets of 95% is due to deposits paid for properties within the Luzon area.

Loans payable likewise increased due to additional US$20 million loan of the Parent Company. Long-term debt was also acquired during the year namely, US$150 million bullet term loan facility, P1.6 billion JEXIM loan of the subsidiaries and a P1.0 billion loan from a local bank.

Accounts payable and accrued expenses increased 9% mainly from payable to contractors.

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) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (5) earnings before interest, income taxes, depreciation and amortization (EBITDA) level; (6) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (7) EBITDA to interest expense which measures the ratio of EBITDA to gross interest expense; (8) operating income to revenues which basically measures the gross profit ratio; and, (9) 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 65% of total assets as of December 31, 2004 and 71% as of December 31, 2003. The Company's liquidity position remains strong with current ratio at 1.48:1 as of December 31, 2004 as compared to 1.82:1 as of December 31, 2003.

In terms of profitability, ROE increased at 15% for the year ended December 31, 2004 compared to 13% in 2003.

Interest-bearing debt to equity increased 0.62:1 as of December 31, 2004 as compared with 0.21:1 as of December 31, 2003 as a result of additional borrowings.

EBITDA increased 16% to P7.10 billion for the year ended December 31, 2004 from P6.11 billion in 2003. Debt to EBITDA, likewise, increased 2.60:1 from 1.07:1 last year due to additional loans obtained. EBITDA to interest expense, however, decreased from 37.61:1 to 33.09:1.

Operating income to revenues is also steady for the year ended December 31, 2004 and 2003 at 56%. On the other hand, net income to revenues declined to 45% for the year ended December 31, 2004 from 47% in 2003 mainly due to increase in interest expense.

SM Prime Holdings, Inc. has set aside P5 billion for capital expenditures for 2005. Construction is now ongoing full-blast on the SM Mall of Asia, set to be the country's premier shopping destination and tourist attraction, revitalizing the Roxas Boulevard Bay Area. In its first phase, the SM Mall of Asia will open in the last quarter of 2005 with a gross floor area of 386,000 square meters—comprised of a Main Mall, an Entertainment Mall, and two parking buildings. Also set to open in 2005 are SM City San Lazaro (Manila), SM Valenzuela and SM City Molino (Cavite). With an amassed land bank of 199 hectares in 15 prime locations, SM Prime Holdings, Inc. is set for continuous expansion within the next five years.

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 period 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.

<u>Changes in and disagreements with accountants on accounting and financial disclosure</u>

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

ITEM 10. Acquisition or Disposition of Property

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

ITEM 11. Restatement of Accounts

Please see attached consolidated financial statements.

D. OTHER MATTERS

ITEM 12. 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 25, 2005.
(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 13. Amendment of Charter, By-Laws or Other Documents

-NA-

ITEM 14. Other Proposed Action

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

(a) Election of directors for 2006 –2007;
(b) Appointment of external auditors; and,
(c) Other matters.

The same items were discussed during the April 25, 2005 stockholders' meeting.

ITEM 15. Voting Procedures

<u>Vote required for approval</u>

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

<u>Methods by which votes will be counted</u>

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. 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.

ITEM 16. Market for Registrant's Common Equity and Related Stockholder Matters

CASH DIVIDEND PER SHARE - ₱ 0.23 in 2005, ₱ 0.65 in 2004 and ₱ 0.125 in 2003.

	2005		2004	
Stock Prices	High	Low	High	Low
First Quarter	₱ 9.70	₱ 7.40	₱ 7.00	₱ 5.50
Second Quarter	8.30	7.10	6.50	5.60
Third Quarter	7.70	6.80	6.40	5.60
Fourth Quarter	9.00	7.20	7.90	5.90

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

As of February 28, 2006, the closing price of the Company's shares of stock is ₱8.00/share. For the two months ending February 28, 2006, stock prices of SMPHI were at a high of ₱8.40 and a low of ₱7.50.

The number of shareholders of record as of February 28, 2006 was 3,134. Capital stock issued and outstanding as of February 28, 2006 was 9,916,437,157. As of December 31, 2005, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 12 of the consolidated financial statements.

The top 20 stockholders as of February 28, 2006 are as follows:

Name	No. of Shares Held	% to Total
1. Shoemart, Inc.	4,757,442,398	47.88
2. PCD Nominee Corp. (Non-Filipino)	2,634,733,354	26.52
3. SM Investments Corp.	2,117,904,564	21.32
4. PCD Nominee Corp. (Filipino)	239,264,590	2.41
5. SM Development Corp.	68,372,292	0.69
6. Deutsche Regis Partners, Inc.	37,034,000	0.37
7. SM Prime Holdings, Inc. (treasury shares)	18,857,000	0.19
8. Regina Capital Dev. Corp.	3,400,000	0.03
9. SM Savings and Loan Association, Inc.	2,618,000	0.03
10. Lucky Securities, Inc. Account 21	2,615,000	0.03
11. Sysmart Corporation	2,099,060	0.02
12. Morgan Guaranty Trust Co.	1,421,528	0.01
13. Elizabeth Sy	1,299,000	0.01
14. Yin Yong Lao &/or Alex Lao	1,270,000	0.01
15. Remington Tiu &/or Agaton Tiu	1,000,000	0.01
16. Agaton L. Tiu &/or Remington Tiu	1,000,000	0.01
17. Teresita Sy	864,400	0.01
18. Chung Tiong Tay	670,000	0.01
19. Pua Yok Bing	609,000	0.01
20. Harry Robert Taylor	592,600	0.01

There are no recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction. 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.

ITEM 17. 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.

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, Vice President – Finance and Administration, at SM Corporate Offices, Building A, 1000 Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

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 Pasay City on March 6, 2006.

By: SM PRIME HOLDINGS, INC.

____

Jeffrey C. Lim
Vice President – Finance & Administration

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 financial statements for the years ended December 31, 2005 and 2004. These financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines 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 stockholders, have audited the consolidated financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors and stockholders.

Henry Sy, Sr.
Chairman

Hans T. Sy
President

Jeffrey C. Lim
Vice President – Finance & Administration

SUBSCRIBED AND SWORN to before me this ____________ at __________________, affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	C.T. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
HENRY SY, SR.	00011551	February 13, 2006	Manila
HANS T. SY	00011555	February 13, 2006	Manila
JEFFREY C. LIM	24319485	February 24, 2006	Makati

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2, 3, 11 and 16)	**₱3,542,166,247**	₱5,676,232,530
Investments held for trading (Notes 2, 4, 11 and 19)	**1,646,416,663**	4,438,549,051
Receivables (Notes 5, 16 and 17)	**2,094,099,214**	1,879,945,181
Prepaid expenses and other current assets	**625,207,770**	328,709,775
Total Current Assets	**7,907,889,894**	12,323,436,537
Noncurrent Assets		
Investment properties - net (Notes 6, 9 and 11)	**33,015,622,650**	28,874,572,783
Shopping mall complex under construction (Note 7, 9 and 11)	**12,308,354,138**	6,440,286,551
Available-for-sale investments (Notes 2, 8 and 16)	**5,154,500,000**	5,617,050,000
Other noncurrent assets (Note 14)	**986,071,901**	676,552,405
Total Noncurrent Assets	**51,464,548,689**	41,608,461,739
	₱59,372,438,583	₱53,931,898,276

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Note 9)	**₱3,204,500,000**	₱5,438,985,000
Accounts payable and other current liabilities (Notes 9, 10, 11 and 16)	**2,049,492,270**	1,612,762,991
Income tax payable	**503,845,660**	525,103,120
Current portion of long-term debt (Notes 11, 16 and 19)	**1,291,000,000**	775,000,000
Total Current Liabilities	**7,048,837,930**	8,351,851,111
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 11, 16 and 19)	**15,239,493,797**	12,009,468,002
Tenants' deposits and others (Note 14)	**3,656,679,535**	2,803,414,123
Total Noncurrent Liabilities	**18,896,173,332**	14,812,882,125
Stockholders' Equity		
Equity attributable to stockholders' of the parent:		
Capital stock	**9,935,294,157**	9,935,294,157
Additional paid-in capital	**3,099,777,406**	3,099,777,406
Retained earnings (Notes 2 and 12):		
Appropriated	**7,000,000,000**	7,000,000,000
Unappropriated	**12,615,936,311**	10,005,746,400
Treasury stock (Note 12)	**(101,474,705)**	(101,474,705)
	32,549,533,169	29,939,343,258
Minority interest	**877,894,152**	827,821,782
Total Stockholders' Equity	**33,427,427,321**	30,767,165,040
	₱59,372,438,583	₱53,931,898,276

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31	
	2005	2004
REVENUE		
Rent (Notes 5, 16 and 17)	**₱9,027,377,053**	₱8,181,484,567
Cinema ticket sales	**1,308,131,615**	1,495,238,810
Amusement and others	**569,215,902**	532,518,239
	10,904,724,570	10,209,241,616
EXPENSES AND OTHERS		
Operating expenses (Notes 13, 15, 16 and 17)	**(4,849,838,840)**	(4,469,112,718)
Interest and dividend income (Notes 3, 4, 8 and 16)	**1,090,644,366**	937,437,519
Interest expense (Notes 9, 11 and 16)	**(335,160,578)**	(214,465,330)
Others – net (Note 2)	**97,773,065**	80,033,841
	(3,996,581,987)	(3,666,106,688)
INCOME BEFORE INCOME TAX	**6,908,142,583**	6,543,134,928
PROVISION FOR INCOME TAX (Note 14)		
Current	**1,447,706,622**	1,634,437,871
Deferred	**210,715,434**	22,489,496
	1,658,422,056	1,656,927,367
NET INCOME	**₱5,249,720,527**	₱4,886,207,561
Attributable to:		
Equity holders of the parent	**₱4,972,905,620**	₱4,621,405,917
Minority interest	**276,814,907**	264,801,644
	₱5,249,720,527	₱4,886,207,561
Earnings Per Share (Note 20)	**₱0.501**	₱0.466

See accompanying Notes to Consolidated Financial Statements.

TENTATIVE

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31	
	2005	2004
Equity attributable to stockholders' of the parent:		
CAPITAL STOCK - ₱1 par value		
Authorized - 10,000,000,000 shares		
Issued - 9,935,294,157 shares	**₱9,935,294,157**	₱9,935,294,157
ADDITIONAL PAID-IN CAPITAL	**3,099,777,406**	3,099,777,406
RETAINED EARNINGS (Note 12)		
Appropriated for future capital expenditures	**7,000,000,000**	7,000,000,000
Unappropriated:		
Balance at beginning of year, as previously reported	**10,005,746,400**	11,830,024,612
Effect of change in accounting for investments held for trading (Note 2)	**(52,185,851)**	–
Balance at beginning of year, as restated	**9,953,560,549**	11,830,024,612
Net income	**4,972,905,620**	4,621,405,917
Cash dividends - ₱0.23 a share in 2005 and ₱0.65 a share in 2004	**(2,310,529,858)**	(6,445,684,129)
Balance at end of year	**12,615,936,311**	10,005,746,400
	19,615,936,311	17,005,746,400
TREASURY STOCK - 18,857,000 shares (Note 12)	**(101,474,705)**	(101,474,705)
	32,549,533,169	29,939,343,258
Minority Interest		
Balance at beginning of year	**827,821,782**	833,142,439
Net income attributable to minority	**276,814,907**	264,801,644
Dividends declared	**(226,742,537)**	(270,122,301)
Balance at end of year	**877,894,152**	827,821,782
	₱33,427,427,321	₱30,767,165,040

See accompanying Notes to Consolidated Financial Statements.

TENTATIVE

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

	Years Ended December 31	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱6,908,142,583**	₱6,543,134,928
Adjustments for:		
Interest and dividend income	**(1,090,644,366)**	(937,437,519)
Depreciation	**1,457,685,076**	1,334,363,929
Interest expense	**335,160,578**	214,465,330
Amortization of debt issue costs	**61,895,266**	9,902,249
Unrealized foreign exchange loss (gain)	**11,024,502**	(11,308,807)
Mark-to-market gain on investments held for trading	**(25,073,031)**	–
Operating income before working capital changes	**7,658,190,608**	7,153,120,110
Increase in:		
Receivables	**(219,089,383)**	(253,762,890)
Prepaid expenses and other current assets	**(296,497,996)**	(109,151,591)
Increase (decrease) in:		
Accounts payable and other current liabilities	**267,715,494**	(40,435,188)
Tenants' deposits	**393,856,337**	307,138,985
Cash generated from operations	**7,804,175,060**	7,056,909,426
Income taxes paid	**(1,468,432,178)**	(1,465,208,214)
Net cash provided by operating activities	**6,335,742,882**	5,591,701,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase (decrease) in:		
Investment properties	**(10,158,405,838)**	(5,426,300,012)
Investments held for trading	**2,736,919,494**	–
Available-for-sale investments	**300,000,000**	(5,317,050,000)
Other noncurrent assets	**(258,957,684)**	(456,662,412)
Interest and dividends received	**1,093,709,716**	789,805,310
Net cash used in investing activities	**(6,286,734,312)**	(10,410,207,114)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans	**6,603,250,529**	12,115,270,000
Payments of:		
Loans	**(4,535,375,000)**	(250,000,000)
Dividends	**(2,537,272,395)**	(6,715,806,430)
Interest	**(1,474,543,485)**	(381,633,107)
Net cash provided by (used in) financing activities	**(1,943,940,351)**	4,767,830,463
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(239,134,502)**	63,083,807
NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS	**(2,134,066,283)**	12,408,368
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,676,232,530**	5,663,824,162
CASH AND CASH EQUIVALENTS ATEND OF YEAR	**₱3,542,166,247**	₱5,676,232,530

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

The Parent Company is 52.77% directly and indirectly-owned by SM Investments Corporation (SMIC), a Philippine corporation which listed its common shares with the Philippine Stock Exchange in 2005.

The registered office and principal place of business of the Parent Company is Building A, SM Corporate Offices, Bay Boulevard, SM Central Business Park, Bay City, 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 28, 2006.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines (GAAP) as set forth in Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Philippine Accounting Standards Council. These are the Company's first consolidated financial statements prepared in accordance with PFRS.

The Company prepared its consolidated financial statements until December 31, 2004 in accordance with Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS).

The consolidated financial statements have been prepared on a historical cost basis except for derivatives, financial instruments held for trading and available-for-sale investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency under PFRS.

The Company applied PFRS 1, "First-time Adoption of Philippine Financial Reporting Standards," in preparing the accompanying consolidated financial statements, with January 1, 2004 as the date of transition. The Company applied the accounting policies set forth below to all the years presented except those relating to financial instruments. An explanation of how the adoption of PFRS has affected the reported financial position, financial performance and cash flows of the Company is provided below.

Explanation of Adoption of PFRS in 2005
The adoption of PFRS resulted in certain changes to the Company's previous accounting policies. An explanation of the effects of adoption of PFRS is set forth below:

PAS 19, "Employee Benefits," which requires the Company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity. Additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This standard has no significant effect on the Company's consolidated financial statements.

PAS 32, "Financial Instruments: Disclosure and Presentation," which covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Company's financial instruments, whether recognized or unrecognized in the financial statements. Adoption of PAS 32 resulted to additional disclosures.

PAS 39, "Financial Instruments: Recognition and Measurement," which establishes the accounting and reporting standards for recognizing and measuring the Company's financial assets and financial liabilities. The standard also covers the accounting for derivative instruments and has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts.

Under the standard, investments held for trading, available-for-sale investments and derivative financial instruments are recognized as assets or liabilities at fair value. Under previous GAAP, temporary investments and investment securities were measured at cost. As permitted under PFRS 1, the Company applied PAS 39 from January 1, 2005. The change in accounting policy resulted to the reclassification of temporary investments at a cost of ₱4,439 million to investments held for trading and investment securities at a cost of ₱5,617 million to available-for-sale investments in the 2004 consolidated balance sheet. The adoption resulted to the decrease in temporary investments and retained earnings by ₱80.3 million and ₱52.2 million, respectively, as of January 1, 2005 and ₱55.2 million and ₱35.9 million, respectively, as of December 31, 2005. The adoption also resulted in the recognition of deferred tax assets of ₱28.1 million and ₱19.3 million as of January 1, 2005 and December 31, 2005, respectively, and has no effect on the consolidated statements of cash flows.

PAS 40, "Investment Property," which prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Company to choose either the fair value model or cost model in accounting for investment property. The Company adopted the cost model and continues to carry its investment properties at depreciated cost less any impairment losses.

The Company also adopted the following other PFRS during the year. Comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards did not impact the stockholders' equity as of January 1, 2004 and December 31, 2004.

- PAS 1, "Presentation of Financial Statements,"
- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors,"
- PAS 10, "Events After the Balance Sheet Date,"
- PAS 17, "Leases,"
- PAS 24, "Related Party Disclosures," and;
- PAS 27, "Consolidated and Separate Financial Statements."

Upon adoption of PAS 27, which reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, investments in subsidiaries will be accounted for at cost in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. The Company accounted its investments in subsidiaries at cost in its separate financial statements. Accordingly, accumulated equity in net earnings of ₱5,114 million and ₱4,539 million as of December 31, 2004 and 2003 were reversed against retained earnings as of January 1, 2005 and 2004, respectively.

Standards Not Yet Effective. The Company did not early adopt the following new or amended standards that have been approved but are not yet effective:

- Amendments to PAS 19, *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures,* and,

- PFRS 7, *Financial Instruments - Disclosures*.

The Company expects that the adoption of the above pronouncements in 2006 and 2007, respectively, will have no significant impact on the Company's consolidated financial statements. Additional disclosures as required by the standards will be included in the consolidated financial statements.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company, First Asia Realty Development Corporation (FARDC), a 54.37%-owned subsidiary and the following wholly owned subsidiaries: Premier Central, Inc., Consolidated Prime Development Corp. (CPDC) and Premier Southern Corp. (PSC). The Parent Company holds its interest in SM Megamall, SM City Dasmarinas and SM City Batangas through FARDC, CPDC and PSC, respectively. 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.

Judgements
In the process of applying the Company's accounting policy on its operating lease commitments, management has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

Use of Estimates
The key assumption that may have a significant risk of causing a material adjustment to the carrying amounts of investment properties within the next financial year is *Estimated Useful Lives*. The useful life of each of the Company's investment properties 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 limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any investment property would increase the recorded operating expenses and decrease investment properties.

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 that are subject to an insignificant risk of change in value.

Rent Receivables
Rent receivables, which generally have 30-90 days' terms, are recognized and carried at original invoice amounts or face amount less an allowance for any uncollectible amounts. Provision for doubtful accounts is made when there is objective evidence that the Company will not be able to collect the receivables. Bad debts are written-off when identified.

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:

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

The asset's residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

TENTATIVE

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

The Company assesses at each reporting date whether there is an indication that investment properties may be impaired. An investment properties recoverable amount is the higher of an investment properties fair value less costs to sell and its value in use. Where the carrying amounts of an investment property exceed its recoverable amount, the investment properties are considered impaired and is written down to its recoverable amount. No impairment losses were recognized during the year.

Investment properties are derecognized when either they have been disposed of or when the investment property 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.

Shopping Mall Complex Under Construction
Shopping mall complex under construction represents structures under construction and is stated at cost. This includes cost of construction, 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 the relevant assets are completed and put into operational use.

Financial Assets and Liabilities
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit and loss.

The Company recognizes a financial asset or a financial liability in the 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.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities are further classified into the following categories: Financial asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale financial assets. The Company determines the classification at initial recognition and re-evaluates this designation at every reporting date.

a. Financial asset or financial liability at fair value through profit or loss

   A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management at fair value through profit or loss. Assets or liabilities classified under this category are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets and liabilities are accounted for in consolidated statements of income. Financial assets at fair value through profit and loss are presented as "Investments held for trading."

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the balance sheet. Amortization is determined using the effective interest rate method.

c. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. Held-to-maturity assets are carried at cost or amortized cost in the balance sheet. Amortization is determined by using the effective interest rate method.

d. Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are accounted for in stockholders' equity. The Company's redeemable investments in preferred shares classified as available-for-sale investments were stated at cost since these are unquoted. It is the intention of the issuer to offer these investments on a private placement basis and only to qualified buyers.

Financial assets and liabilities is classified as current if maturity is within twelve months from the balance sheet date otherwise, these are classified as noncurrent.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

The Company assesses at each balance sheet date whether a financial asset or group of financial asset is impaired. Impairment losses, if any, are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows or current fair value. No impairment losses were recognized during the year.

<u>Debt Issuance Costs</u>
Debt issuance costs are deducted against long-term debt and are amortized over the terms of the related borrowings using the effective interest rate method.

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 Income. 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, Ice Skating, Bowling and Others. Revenue is recognized upon receipt of cash from the customer.

Interest. Revenue is recognized as the interest accrues.

Dividends. Revenue is recognized when the shareholders' 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 Expense
The Parent Company is a participant to 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 of its 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 employees' projected salaries. Pension expense 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 obligation or market related 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 recognized minus the fair value at the balance sheet date of plan assets out of which the obligations are to be settled directly.

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 by the balance sheet date.

Deferred Tax. Deferred income tax is provided using the 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 those that are stated under the standards.

Deferred income 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 those that are stated under the standards.

The carrying amount of deferred income 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 income tax asset to be utilized.

Deferred income 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 the 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.

Foreign Currency Translation

The financial statements are presented in Philippine peso which is the 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 retranslated at the functional currency rate of exchange at the balance sheet date. All differences are taken to consolidated statements of income.

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 where:

- 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.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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. No provisions were recognized during the year.

Financial Instruments
The Parent Company enters into long-term foreign currency swap agreements to manage its foreign currency exposures relating to certain long-term foreign currency-denominated loans. Translation gains or losses on foreign currency swaps entered into as hedges are computed by multiplying the swap notional amounts by the difference between the spot exchange rate prevailing on balance sheet date and the spot exchange rate on the contract inception date (or the last reporting date). The resulting translation gains or losses are offset against the translation losses or gains on the underlying foreign currency-denominated liabilities. The Parent Company also enters into interest rate swaps to manage its interest rate exposures on underlying floating-rate loans. Swap costs accruing on foreign currency swaps and interest rate swaps that are currently due to or from the swap counterparties are charged to current operations.

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.

For income tax reporting purposes, borrowing costs are treated as deductible expenses during the year such are incurred.

Earnings Per Share (EPS)
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.

Business Segment
The Company has one primary business segment, which is shopping mall operations.

Subsequent Events
Post year-end events that provide additional information about the Company's position at the 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 when material.

3. Cash and Cash Equivalents

This account consists of:

	2005	2004 (As restated - see Note 2)
Cash on hand and in banks	**₱242,807,779**	₱313,462,568
Temporary investments	**3,299,358,468**	5,362,769,962
	₱3,542,166,247	₱5,676,232,530

Cash in banks earns 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 (see Notes 11 and 16).

4. Investments Held for Trading

This account consists of various investments in bonds purchased from different banks with fixed interest rate ranging from 7.25% to 9.375%. This account also consists of government bonds with fixed interest rate of 5.98% to 12%. These investments are peso and U.S. dollar denominated and will mature on various dates starting September 24, 2007 until January 15, 2016 (see Note 11).

5. Receivables

This account consists of:

	2005	2004
Rent	**₱1,569,488,741**	₱1,342,640,698
Accrued interest and others	**524,610,473**	537,304,483
	₱2,094,099,214	₱1,879,945,181

Accrued interest are normally settled throughout the financial year (see Notes 16 and 17).

6. Investment Properties

This account consists of:

	Land	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at beginning of year	₱6,723,580,334	₱24,355,912,417	₱5,414,677,039	₱36,494,169,790
Additions	576,775,718	492,799,193	811,845,398	1,881,420,309
Reclassifications	–	3,328,701,251	388,613,383	3,717,314,634
Balance at end of year	7,300,356,052	28,177,412,861	6,615,135,820	42,092,904,733
Accumulated Depreciation				
Balance at beginning of year	–	5,264,280,421	2,355,316,586	7,619,597,007
Depreciation	–	590,972,763	866,712,313	1,457,685,076
Balance at end of year	–	5,855,253,184	3,222,028,899	9,077,282,083
Net Book Value	₱7,300,356,052	₱22,322,159,677	₱3,393,106,921	₱33,015,622,650

Fair value of investment properties determined based on valuations performed by independent appraiser as of December 31, 2004 amounted to ₱107,774 million.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International valuation standards.

7. Shopping Mall Complex Under Construction

Movement of this account follows:

	2005	2004
Balance at beginning of year	**₱6,440,286,551**	₱1,903,228,139
Additions	**9,585,382,221**	6,651,390,299
Reclassifications	**(3,717,314,634)**	(2,114,331,887)
Balance at end of year	**₱12,308,354,138**	₱6,440,286,551

Shopping mall complex under construction mainly pertains to costs incurred for the development of the buildings and structures of “SM City Sta. Rosa,” “Mall of Asia,” “SM City Clark,” “SM City North Edsa Annex 3” and “SM City Lipa”.

Construction contracts with various contractors related to the construction of the abovementioned projects amounted to ₱8,081 million, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. Outstanding contracts as of December 31, 2005 are valued at ₱1,897 million.

8. Available-for-sale Investments

This account consists of investments in redeemable preferred shares with annual dividend rates of 6.5% to 10.46%. 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. These are redeemable in 2009 at the option of the issuer. These investments are unquoted and therefore were stated at cost.

9. Loans Payable

Loans payable consist of peso-denominated and U.S. dollar-denominated loans obtained from banks amounting to ₱550 million and ₱2,655 million (US$50 million) in 2005 and ₱650 million and ₱4,789 million (US$85 million) in 2004. The loans bear interest at prevailing market rates.

10. Accounts Payable and Other Current Liabilities

This account consists of:

	2005	2004
Trade	**₱704,978,722**	₱552,048,519
Liability for purchased land	**470,515,374**	98,246,759
Accrued interest (see Notes 9, 11 and 16)	**375,191,354**	206,177,569
Accrued operating expenses and others (see Note 16)	**498,806,820**	756,290,144
	₱2,049,492,270	₱1,612,762,991

Terms and conditions of the above financial liabilities:

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

- Accrued expense, liability for purchased land and other payables are noninterest bearing and usually settled throughout the year.

11. **Long-term Debt**

This account consists of:

	2005	2004
Parent Company -		
U.S. dollar-denominated five-year syndicated loan	**₱7,817,895,366**	₱8,271,682,618
Peso-denominated loans:		
Five-year and seven-year fixed rate notes	**4,965,643,165**	–
Five-year syndicated loan	**1,269,021,152**	1,691,971,261
Other bank loans	**996,840,610**	995,141,587
Subsidiaries:		
Peso-denominated five-year syndicated loans	**1,481,093,504**	1,825,672,536
	16,530,493,797	12,784,468,002
Less current portion	**1,291,000,000**	775,000,000
	₱15,239,493,797	₱12,009,468,002

Parent Company

U.S. dollar-denominated Five-Year Syndicated Loan
The US$150.0 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 a certain percentage plus London Inter-Bank Offered Rate (see Note 19).

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 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 Note 19).

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.

Other Bank Loans
This represents a 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, and will mature on December 1, 2006 and December 1, 2009, respectively.

Subsidiaries

Peso-denominated Five-Year Syndicated Loans
In 2004, CPDC and PSC obtained a five-year term loan originally amounting 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. The loan is guaranteed by the Parent Company.

In 2004, this also includes a five-year term loan of FARDC originally amounting to ₱1,000 million obtained on December 26, 2000. The loan is payable in equal quarterly installments of ₱62 million starting March 26, 2002 up to December 26, 2005 and bears a variable interest rate determined in accordance with the loan agreement.

As of December 31, 2005, certain portion of investments held for trading amounting to ₱1,986 million is 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 temporary investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 16).

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, 2005 and 2004, the Company is in compliance with the terms of its loan covenants.

Long-term debt is net of unamortized debt issuance costs amounting to ₱208.0 million and ₱216.7 million as of December 31, 2005 and 2004, respectively.

Repayment Schedule
Repayments of long-term debt are scheduled as follows:

Year	Amount
2006	₱1,291,000,000
2007	825,000,000
2008	825,000,000
2009	8,797,500,000
2010-2012	5,000,000,000
	₱16,738,500,000

12. **Retained Earnings**

a. The retained earnings account is restricted for the payment of dividends to the extent of ₱101 million, representing the cost of shares held in treasury and accumulated equity in net earnings of subsidiaries totaling ₱4,260 million and ₱5,114 million as of December 31, 2005 and 2004, respectively. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

b. On March 22, 2002, the BOD approved a resolution to appropriate ₱7,000 million for capital expansion programs from retained earnings as of December 31, 2001.

13. Operating Expenses

This account consists of:

	2005	2004
Administrative (see Notes 15, 16 and 17)	**₱1,638,621,352**	₱1,404,844,093
Depreciation	**1,457,685,076**	1,334,363,929
Film rentals	**687,859,433**	778,571,501
Business taxes and licenses	**498,370,891**	446,528,340
Others (see Note 16)	**567,302,088**	504,804,855
	₱4,849,838,840	₱4,469,112,718

14. Income Tax

	2005	2004
Deferred tax assets (shown as part of "Other noncurrent assets" account)	**₱107,745,311**	₱57,183,499
Deferred tax liabilities (shown as part of "Tenants' deposits and others" account)	**₱355,470,537**	₱121,761,462

The reconciliation of provision for income tax on income before income tax and minority interest computed at statutory tax rate to provision for income tax as shown in the consolidated statements of income follows:

	2005	2004
Statutory tax rate	**32.5%**	32.0%
Interest and dividend income subjected to final tax	**(5.1)**	(4.6)
Change in enacted tax rates and others	**(3.4)**	(2.1)
Effective tax rate	**24.0%**	25.3%

On May 24, 2005, the President has signed into law Republic Act No. 9337 (the "Act"), which took effect on November 1, 2005. The Act, among others, introduces the following changes:

a. Regular corporate income tax rate for domestic corporations, and resident and non-resident foreign corporations is increased to 35% (from 32%) beginning July 1, 2005 and the rate will be reduced to 30% beginning January 1, 2009. The regular corporate income tax rate shall be applied by multiplying the number of months covered by the new rate with the taxable income of the corporation during the year, divided by twelve.

b. Power of the President upon the recommendation of the Secretary of Finance to increase the rate of the value added tax (VAT) to 12%, after any of the following conditions has been satisfied:

i. VAT collection as a percentage of gross domestic product (GDP) of the previous year exceeds 2 and 4/5%; or

ii. National Government deficit as a percentage of GDP of the previous year exceeds 1 and 1/2%.

c. Input VAT on capital goods should be spread evenly over the useful life or sixty months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds one million pesos.

d. Input VAT credit in every quarter shall not exceed 70% of the output VAT.

15. **Retirement Plan**

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

Net Benefit Expense

	2005	2004
Current service cost	**₱388,003**	₱556,657
Interest cost on benefit obligation	**453,107**	439,860
Expected return on plan assets	**(262,914)**	(197,532)
Net actuarial gain recognized in the year	**(17,516)**	–
Net benefit expense	**₱560,680**	₱798,985
Actual return on plan assets	**₱312,990**	₱205,468

Benefit Liability

	2005	2004
Defined benefit obligation	**₱5,334,567**	₱3,236,475
Fair value of plan assets	**3,319,755**	2,190,948
Unfunded obligation	**2,014,812**	1,045,527
Unrecognized net actuarial (gains)/losses	**(751,815)**	831,624
Benefit liability	**₱1,262,997**	₱1,877,151

Changes in the present value of the defined benefit obligation are as follows:

	2005	2004
Opening defined benefit obligation	**₱3,236,475**	₱3,665,502
Interest cost	**453,107**	439,860
Current service cost	**388,003**	556,657
Benefits paid	**(359,017)**	(601,856)
Actuarial (gains)/losses on obligation	**1,615,999**	(823,688)
Closing defined benefit obligation	**₱5,334,567**	₱3,236,475

Change in the fair value of plan assets are as follows:

	2005	2004
Opening fair value of plan assets	**₱2,190,948**	₱1,646,098
Benefits paid	**(359,017)**	(601,856)
Expected return	**262,914**	197,532
Contributions	**1,174,834**	941,238
Actuarial gains	**50,076**	7,936
Fair value of plan assets	**₱3,319,755**	₱2,190,948

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

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

16. **Related Party Transactions**

Transactions with related parties have been entered into at terms no less favorable than could have been obtained if the transactions were entered into with unrelated parties. The amounts included in the consolidated financial statements with respect to these transactions follow:

a. The Company has existing lease agreements with the SM Retail and SM Banking Group. Total rent revenue amounted to ₱2,904 million and ₱2,621 million in 2005 and 2004, respectively. Rent receivable, included under "Receivables" account, amounted to ₱521 million and ₱501 million as of December 31, 2005 and 2004, respectively.

b. The Company leases the land where one of its malls is located from SMIC for a period of 50 years, renewable subject to mutual agreement of the parties. The Company shall pay SMIC a minimum fixed amount or a certain percentage of its gross rental income, whichever is higher. Rent expense amounted to ₱46 million and ₱39 million in 2005 and 2004, respectively. Rental payable to SMIC, included under "Accounts payable and other current liabilities" account, amounted to ₱5.2 million and ₱4.2 million as of December 31, 2005 and 2004, 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 mall. Total management fees amounted to ₱324 million and ₱300 million in 2005 and 2004, respectively. Accrued management fees, included under "Accounts payable and other current liabilities" account, amounted to ₱20 million and ₱47 million as of December 31, 2005 and 2004, respectively.

d. The Company has certain bank accounts and cash placements that are maintained with The SM Banking Group. Cash and cash equivalents including investments held for trading amounted to ₱3,681 million and ₱6,120 million as of December 31, 2005 and 2004, respectively. Pledged time deposits of ₱1,986 million is deposited with Banco de Oro (see Note 11). Interest income amounted to ₱452 million and ₱470 million in 2005 and 2004, respectively. Accrued interest receivable, included under "Receivables" account, amounted to ₱50 million and ₱76 million as of December 31, 2005 and 2004, respectively.

e. As of December 31, 2005 and 2004, outstanding long-term debt from the SM Banking Group amounted to ₱1,900 million and ₱2,463 million, respectively. Interest expense amounted to ₱229 million and ₱152 million in 2005 and 2004, respectively. Accrued interest payable, included under "Accounts payable and other current liabilities" account, amounted to ₱78 million and ₱22 million as of December 31, 2005 and 2004, respectively.

f. As of December 31, 2005 and 2004, a portion of available-for-sale investments amounting to ₱2,655 million and ₱2,817 million pertains to preferred shares of Banco de Oro (see Note 8). Dividend income amounted to ₱176.2 million and ₱37.6 million in 2005 and 2004, respectively. Dividends receivable included under "Receivables" account, amounted to ₱84.3 million and ₱37.6 million as of December 31, 2005 and 2004, respectively.

g. Total compensation paid to key management personnel of the Company amounted to ₱9.6 million and ₱7.3 million in 2005 and 2004, respectively. Aside from the usual monthly salaries and government mandated bonus, there are no other special benefits paid to management personnel.

17. 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. Tenants pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales.

The Company also leases certain parcels of land where some of its malls are constructed. The terms of the lease shall be for a period ranging from 25 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.

18. Financial Risk Management Objectives and Policies

The Company's principal financial instruments, other than derivatives, comprise bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise financing for 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 cross currency and interest rate swaps and foreign exchange forward contracts. 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. Details of financial instruments that are exposed to interest rate risk are disclosed in Notes 4, 8 and 11.

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 hedge underlying debt obligations. As of December 31, 2005, after taking into account the effect of interest rate swaps, approximately 78% of the Company's long-term borrowings are at a fixed rate of interest.

Foreign Currency Risk
As of December 31, 2005, the Company's foreign currency denominated monetary assets and liabilities amounted to ₱6,955 million (US$131 million) and ₱6,902 million (US$130 million), respectively, and as of December 31, 2004, ₱10,198 million (US$181 million) and ₱9,296 million (US$165 million), respectively.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱53.09 to US$1.00 and ₱56.341 to US$1.00, the Philippine peso to U.S. dollar exchange rates as of December 31, 2005 and 2004, respectively.

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

Credit Risk
It is the Company's policy that all prospective tenants be 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.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale investments, investments held for trading 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. Disclosure of fair values of these financial instruments is disclosed in Note 19.

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

The Parent Company may be exposed to credit risk as a result of a transaction guaranteeing the loan of PSC and CPDC. In the event that PSC and CPDC fail to perform its obligations, its maximum exposure is equal to the carrying amount of the loan (see Note 11).

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.

19. Financial Instruments

Fair Values
The fair value and carrying amounts of investments held for trading amounted to ₱1,646 million and ₱1,591 million as of December 31, 2005 and ₱4,358 million and ₱4,438 million as of December 31, 2004, respectively. The carrying amounts of the Company's other financial assets and liabilities approximate their fair values.

Foreign Currency Swaps and Interest Rate Swaps
In 2004, the Parent Company entered into foreign currency swap agreements with 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 these US dollar-denominated loans into Philippine peso-denominated loans with payments up to October 2009.

The Parent Company also entered into USD interest rate swap agreements with aggregate notional amount of US$80 million. Under these agreements, the Parent Company effectively swaps these floating rate US dollar-denominated loans into fixed rate loans semi-annual payment intervals up to October 2009.

In 2005, the Parent Company also entered into PAP interest swap agreements with aggregate notional amount of ₱3,750 million. Under these agreements, the Parent Company effectively swaps these fixed rate peso-denominated loans into floating rate loans with semi-annual payment intervals up to July 2012.

20. Basic EPS Computation

Basic EPS is computed as follows:

	2005	2004
Net income (a)	**₱4,972,905,620**	₱4,621,405,917
Common shares issued	**9,935,294,157**	9,935,294,157
Less weighted average number of treasury shares acquired during the year	**18,857,000**	18,857,000
Weighted average number of common shares outstanding (b)	**9,916,437,157**	9,916,437,157
Earnings per share (a/b)	**₱0.501**	₱0.466