

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

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

3. **PHILIPPINES**

Province, country or other jurisdiction of incorporation or organization

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

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

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

Address of principal office

Postal Code

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

8. **April 28, 2009, 2:30 P.M., Function Room 1, SMX Convention Center, Seashell
Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300**

Date, time and place of the meeting of security holders

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

April 1, 2009

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

13,329,334,367

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

Yes No

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

Philippine Stock Exchange

Common shares

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 28, 2009 at 2:30 p.m. at the Function Room 1, SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City 1300. The complete mailing address of the principal office of the registrant is SM Corporate Offices, Building A, 1000 JW Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.

The approximate date on which the Information Statement will be sent or given to the stockholders is on April 1, 2009.

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 30, 2009. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 13,329,334,367 shares (net of 18,857,000 treasury shares). Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

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

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

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

- (a) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30 day period shall be deemed a waiver on his appraisal right;

- (b) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and
- (c) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation

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

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

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

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities And Principal Holders Thereof

(1) Number of Common Shares Outstanding

The Company has 13,329,334,367 (net of 18,857,000 treasury shares) common shares outstanding as of January 31, 2009. Each share is entitled to one vote. All stockholders of record as 30 March 2009 are entitled to notice of and to vote at the Annual Stockholders' Meeting.

(2) Manner of Voting

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

(3) Security Ownership of Certain Record and Beneficial Owners as of January 31, 2009

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

Title of Securities	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)

Common	SM Land, Inc (formerly Shoemart, Inc.), (Related Company)¹ OneEcom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	SM Land, Inc (formerly Shoemart, Inc.)²	Filipino	5,945,158,593 (b)	44.54
-do-	SM Investments Corporation (SMIC) (Parent Company)³ OneEcom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	SMIC⁴	Filipino	2,757,559,722 (b)	20.66
-do-	PCD Nominee Corp.⁵ MSE Bldg., Ayala Ave., Makati City	PCD Participants⁵ ⁶	Filipino - 3.61% Non Filipino - 30.22%	4,515,772,769 (r)	33.83

¹ The following are the individuals holding the direct beneficial ownership of SM Land, Inc (formerly Shoemart, Inc.): Henry Sy, Sr.-4.80%, Felicidad T. Sy, Teresita T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy, Harley T. Sy – 4.72% each.

² Henry Sy, Sr, and Henry Sy, Jr. are the Chairman and Vice Chairman/ President of SM Land, Inc (formerly Shoemart, Inc.), respectively.

³ The following are the individuals holding the direct beneficial ownership of SMIC.: Henry Sy, Sr.-17.63%, Felicidad T. Sy-10.30%, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy-9.85% each, Harley T. Sy-9.92%, Teresita T. Sy-9.78% and Elizabeth Sy-.07%.

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

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

⁶ The PCD is not related to the Company.

(3) Security Ownership of Management as of January 31, 2009

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship	Amount and Nature of Direct Beneficial Ownership	Class of Securities	Percent of Class
Common	Henry Sy, Sr.	Filipino	4,394,894 (b)	Voting	0.03
-do-	Jose L. Cuisia, Jr.	Filipino	326,827 (b)	Voting	0.00
-do-	Senen T. Mendiola -	Filipino	638,575 (b)	Voting	0.00
-do-	Teresita T. Sy	Filipino	984,657 (b)	Voting	0.00
-do-	Henry T. Sy, Jr.	Filipino	12,522 (b)	Voting	0.00
-do-	Hans T. Sy	Filipino	12,522 (b)	Voting	0.00
-do-	Herbert T. Sy	Filipino	388,103 (b)	Voting	0.00
-do-	Gregorio U. Kilayko	Filipino	10,000 (b)	Voting	0.00
-do-	Elizabeth T. Sy	Filipino	1,626,488 (b)	Voting	0.01
-do-	Jeffrey C. Lim	Filipino	40,000 (b)	Voting	0.00
-do-	Christopher S. Bautista	Filipino	30,000 (b)	Voting	0.00
	All directors and executive officers as a group		8,464,588	Voting	0.06

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

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

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

ITEM 5. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

<u>Office</u>	<u>Name</u>	<u>Citizenship</u>	<u>Age</u>
Chairman	Henry Sy, Sr.	Filipino	84
Vice Chairman and Independent Director	Jose L. Cuisia, Jr.	Filipino	65
Independent Director	Gregorio U. Kilayko	Filipino	54
Director and President	Hans T. Sy	Filipino	53
Director	Senen T. Mendiola	Filipino	82
Director	Henry T. Sy, Jr.	Filipino	55
Director	Herbert T. Sy	Filipino	52
Adviser to the Board of Directors	Teresita T. Sy	Filipino	58
Executive Vice President and Chief Finance Officer	Jeffrey C. Lim	Filipino	47
Senior Vice President – Legal and Corporate Affairs/ Compliance Officer/ Assistant			
Corporate Secretary	Corazon I. Morando	Filipino	67
Senior Vice President – Marketing	Elizabeth T. Sy	Filipino	56
Vice President – Market Research and Planning	Ronald G. Tumao	Filipino	50
Vice President – Internal Audit Head	Christopher S. Bautista	Filipino	49
Vice President – Information Technology	Kelsey Hartigan R. Go	Filipino	43
Vice President – Finance	Diana R. Dionisio	Filipino	36
Corporate Secretary/ Asst. Compliance Officer	Emmanuel C. Paras	Filipino	59

Board of Directors

Henry Sy, Sr. has served as Chairman of the Board of Directors of SM Prime since 1994. He is the founder of the SM Group and is currently Chairman Emeritus of Banco de Oro Unibank, Inc., Honorary Chairman of China Banking Corporation, Chairman of SM Land, Inc. (formerly 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.

Gregorio U. Kilayko* is the Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the demutualized Philippine Stock Exchange in 2003. At present, he is also an independent director of Highlands Prime, Inc. He was elected as Independent Director in 2008.

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

Hans T. Sy, President, has served as Director since 1994 and was Senior Vice President for Operations. He holds many key positions in the SM Group. He is First Executive Vice President of SM Investments Corporation, Director of and Vice Chairman of China Banking Corporation, Director of Highlands Prime, Inc., SM Land, Inc (formerly Shoemart, Inc.) and Belle Corporation. He also holds board positions in several companies within the Group. He is a mechanical engineering graduate of De La Salle University.

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

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

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

Teresita T. Sy has served as Adviser to the Board since May 2008. She was previously a Director since 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairman of Banco de Oro Unibank, Inc., Vice Chairman of SM Investments Corporation and Director of SM Land, Inc (formerly Shoemart, Inc.). She also holds board positions in several companies within the SM Group.

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

Senior Management

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

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

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

Ronald G. Tumao is the Vice President for Market Research & Planning. He graduated from De La Salle University with a degree in BSC - Management of Financial Institutions. He later took his MBA at the Ateneo Graduate School in Makati City. He has over 10 years of experience in banking and finance and more than 10 years experience in brand management and consumer marketing. He is in charge of property acquisition for SM. He joined the Company in 2001.

Christopher S. Bautista is the Vice President for Internal Audit (Chief Audit Executive). He was formerly the Chief Finance Officer of a large palm oil manufacturer based in Jakarta, Indonesia and was a partner (principal) for several years of an audit and management consulting firm based also in Jakarta. He started his professional career as staff auditor of SyCip, Gorres, Velayo & Co. He joined the Company in 1998.

Kelsey Hartigan Go is the Vice-President for Information Technology. He holds a Bachelor's Degree in Electronics & Communications Engineering and a Masters of Science Degree in Computer Science, both from the De La Salle University, Manila. He was previously a professor of a university in the Philippines and was concurrently the Director of the Information Systems Center of the same university. He joined the Company in 1997.

Diana R. Dionisio is the Vice President for Finance. She holds a Bachelor's degree in Accountancy from the University of Santo Tomas. Prior to joining the company, she was the accounting manager of a real property company. She started her professional career as staff auditor of Sycip, Gorres, Velayo & Co. She joined the Company in 1999.

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

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

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

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

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

Henry Sy, Sr.

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

Jose L. Cuisia, Jr.

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

Gregorio U. Kilayko

<i>Name of Corporation</i>	<i>Position</i>
Highlands Prime, Inc.....	Director
Belle Corporation.....	Director

Henry T. Sy, Jr.

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

Hans T. Sy

<i>Name of Corporation</i>	<i>Position</i>
China Banking Corporation	Director/ Vice Chairman/ Chairman of ExCom
Belle Corporation.....	Director
Highlands Prime, Inc.....	Director
SM Investments Corporation.	First Executive Vice President

Herbert T. Sy

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

Teresita T. Sy

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

Elizabeth T. Sy

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

Involvement in Legal Proceedings

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

- (a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (c) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.
- (e) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

The members of the Audit and Corporate Governance Committee are:

JOSE L. CUISIA, JR.	-	Chairman (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)
SENEN T. MENDIOLA	-	Member
JOSE T. SIO	-	Member
SERAFIN U. SALVADOR	-	Member
CORAZON I. MORANDO	-	Member

The members of the Compensation Committee are:

HANS T. SY	-	Chairman
GREGORIO U. KILAYKO	-	Member (Independent Director)
JOSE T. SIO	-	Member

The members of the Nomination Committee are:

HENRY SY, SR.	-	Chairman
JOSE L. CUISIA, JR.	-	Member (Independent Director)
CORAZON I. MORANDO	-	Member

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

Henry Sy, Sr.
Jose L. Cuisia, Jr.
Gregorio U. Kilayko
Henry T. Sy, Jr.
Hans T. Sy
Herbert T. Sy
Senen T. Mendiola

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

Jose L. Cuisia, Jr.
Gregorio U. Kilayko

Mr. Jeffrey C. Lim is not related to Jose L. Cuisia and Gregorio U. Kilayko.

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

Henry Sy, Sr.	-	Chairman
Jose L. Cuisia, Jr.	-	Vice-Chairman
Hans T. Sy	-	President
Jeffrey C. Lim	-	Executive Vice President and Chief Finance Officer
Corazon I. Morando	-	Senior Vice President – Legal and Corporate Affairs/ Compliance Officer/ Assistant Corporate Secretary
Elizabeth T. Sy	-	Senior Vice President - Marketing
Ronald G. Tumao	-	Vice President – Market Research and Planning
Christopher S. Bautista	-	Vice President - Internal Audit Head
Kelsey Hartigan R. Go	-	Vice President - Information Technology
Diane R. Dionisio	-	Vice President - Finance
Emmanuel C. Paras	-	Corporate Secretary/ Asst. Compliance Officer

Family Relationships

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

ITEM 6. Compensation of Directors and Executive Officers

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

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

Summary Compensation Table

Aggregate compensation paid to all officers and directors as a group

<i>(estimate)</i>	Year 2009	₱20,000,000	₱32,500,000
	2008	18,000,000	32,500,000
	2007	16,000,000	32,500,000
	2006	12,650,000	22,800,000

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

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

ITEM 7. Certain Relationships and Related Transactions

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

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

Please refer to Note 21 of the attached 2008 consolidated financial statements.

ITEM 8. Independent Public Accountants

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

Pursuant to SRC Rule 68.1 (Qualification and Reports of Independent Auditors), the Company engaged Mr. Ramon D. Dizon of SGV & Co starting year 2009. Previously, the Company engaged Ms. Melinda G. Manto of SGV & Co for the examination of the Company's financial statements from 2006 up to 2008.

The Company and its subsidiaries paid SGV & Co P1.6 million and P1.5 million for external audit services for the years 2008 and 2007, respectively. There were no other professional services rendered by SGV & Co during the period. Tax consultancy services are secured from entities other than the external auditor.

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

ITEM 9. Employee Compensation Plans

There are no existing or planned stock options.

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

- NA -

D. FINANCIAL AND OTHER INFORMATION

ITEM 11. Financial Statements

The Company's consolidated financial statements for the years ended December 31, 2008, 2007 and 2006 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 33 SM Supermalls in the country and 3 SM Supermalls in China.

The subsidiaries of the Company follow:

Company	Date and Place of Incorporation	Percentage of Ownership	Malls Owned
First Asia Realty Development Corporation (FARDC)	September 7, 1987, Philippines	54.37	SM Megamall
Premier Central, Inc.	March 16, 1998, Philippines	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	March 25, 1998, Philippines	100.00	SM City Dasmariñas
Premier Southern Corp. (PSC)	April 7, 1998, Philippines	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	March 7, 2001, Philippines	100.00	-na-
First Leisure Ventures Group, Inc.	March 28, 2007, Philippines	50%	San Miguel by the Bay
Mega Make Enterprises Limited	July 6, 2007, British Virgin Islands	100%	SM City Jinjiang
Affluent Capital Enterprises Limited	March 20, 2006, British Virgin Islands	100%	SM City Xiamen
SM Land (China) Limited	August 9, 2006 Hong Kong	100%	SM City Chengdu
			-na-

All the malls are under SMPHI except for the 8 malls which are under the subsidiaries mentioned in the above table. The San Miguel by the Bay is an expansion of the Mall of Asia shopping mall.

Management's Discussion and Analysis or Plan of Operation

2008

Financial and Operational Highlights

(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31		
	2008	2007	% Change
Profit & Loss Data			
Revenues	17,839	15,970	12%
Operating Expenses	8,208	7,139	15%
Operating Income	9,631	8,830	9%
Net Income	6,412	5,972	7%
EBITDA	12,297	11,330	9%
	Dec 31	Dec 31	
	2008	2007	% Change
Balance Sheet Data			
Total Assets	95,505	76,449	25%

Total Debt	30,555	20,690	48%
Net Debt	17,121	15,818	8%
Total Stockholders' Equity	46,829	42,518	10%

Financial Ratios

Fixed Assets to Total Assets	0.79	0.86
Current Ratio	1.09	1.01
Debt to Equity	0.39 : 0.61	0.33 : 0.67
Net Debt to Equity	0.27 : 0.73	0.27 : 0.73
Return on Equity	0.14	0.14
Debt to EBITDA	2.48	1.83
EBITDA to Interest Expense	14.33	14.28
Operating Income to Revenues	0.54	0.55
EBITDA Margin	0.69	0.71
Net Income to Revenues	0.36	0.37

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator which currently owns 33 malls in the Philippines and 3 malls in China, posts 12% increase in gross revenues for the year 2008 to P17.84 billion from P15.97 billion in 2007. Rental revenues remain the largest portion, with a growth of 15% amounting to P15.36 billion from last year's P13.40 billion. This is largely due to rentals from new SM Supermalls opened in 2007, namely, SM City Bacolod, SM City Taytay and SM Supercenter Muntinlupa. In addition, three malls were also expanded in 2007, namely, SM City Pampanga, SM City Cebu and Mall of Asia. Towards the end of 2008, three malls were opened -- SM City Marikina, SM City Rosales and SM City Baliwag. Likewise, the Megamall Atrium and The Annex at SM North Edsa were also opened in the last quarter of 2008. The new malls and expansions added 705,000 square meters to total gross floor area. Currently, the new malls have an average occupancy level of 93%. Same store rental growth is at 5%.

In terms of gross revenues, the three malls in China contributed P0.83 billion in 2008 and P0.62 billion in 2007, or 5% and 4% of total consolidated operating revenues, respectively. Likewise, in terms rental revenues, the China operations contributed P0.81 billion in 2008 and P0.60 billion in 2007, or 5% and 4%, respectively, of SM Prime's consolidated rental revenue. Rental revenue of these three malls in China increased 35% in 2008 compared to the same period in 2007. Average occupancy rate for the three malls is at 88% in 2008 compared to 81% in 2007.

For the year 2008, cinema ticket sales were flat due to fewer movies shown and lack of blockbuster movies compared to 2007. In 2008, major blockbusters shown were "A Very Special Love," "Twilight," "Iron Man," "For The First Time," "Batman: The Dark Knight," and "Forbidden Kingdom." In the same period 2007, major films shown were "Spiderman 3," "Transformers," "Harry Potter 5," "Ang Cute ng Ina Mo," "One More Chance." In addition, there were also more Filipino movies shown in 2007 compared to 2008.

Amusement and other income also decreased by 13% from P724 million to P632 million. This account is mainly composed of amusement income from bowling and ice skating operations including the SM Science Discovery Center.

Operating expenses increased by 15% in 2008 from P7.14 billion to P8.21 billion mainly due to the new malls. Likewise, income from operations posted a 9% growth from P8.83 billion in 2007 to P9.63 billion

in 2008. In terms of operating expenses, the three malls in China contributed P0.56 billion in 2008 and P0.52 billion in 2007, or 7% of SM Prime's consolidated operating expenses.

Interest and dividend income decreased significantly by 44% in 2008 compared to 2007 due to maturity of high-yield time deposit instruments in the last quarter of 2007 and the early redemption of Ayala preferred shares in the second half of 2007. The proceeds from these investments were used to prepay maturing short-term loans and a portion of long-term debt.

Net income for the year 2008 increased 7% at P6.41 billion from same period last year of P5.97 billion. Meanwhile, the net income of the three malls in China also grew to P96 million in 2008 compared to a net loss of P3 million in 2007. On a stand-alone basis, net income of the Philippine operations grew 6% at P6.32 billion for the year 2008 from P5.97 billion in the same period 2007.

On the balance sheet side, cash and cash equivalents, including investments held for trading increased 310% mainly due to subsequent collections and new temporary investments. Also, proceeds from loans taken in the last quarter of 2008 for capital expenditures have yet to be disbursed and are still included under this account.

Receivables increased by 12% due to increase in rental receivables usually expected during the holiday season. Prepaid expenses and other current assets likewise increased by 14% mainly due to advances to contractors for shopping malls under construction offset by subsequent application of input taxes.

Total available-for-sale investments increased from P2.22 billion to P2.55 billion mainly due to foreign exchange restatement of the \$50 million BDO preferred shares. This investment will mature in October 2009.

The decrease in derivative assets of 90% is due to settlement of various non-deliverable forwards entered into in 2007. Deferred tax assets increased by 46% due to additional NOLCO of the China subsidiaries.

Investment properties and shopping mall under construction increased by 14% mainly because of completed and ongoing mall projects e.g. Marikina, Rosales, Baliwag, Naga, and expansion of existing malls - - Fairview, Megamall and Xiamen. Of these projects, Naga and Xiamen are scheduled to open in 2009 while the rest were opened in 2008 and Fairview Expansion was opened last January 15, 2009.

Other noncurrent assets increased 70% due to additional deposits paid and advances to contractors for mall construction and deposits paid for leases of real properties.

Loans payable increased 130% due to availments for working capital. Long-term debt increased mainly due to availment of a Php3 billion long-term facility in June 2008, a Rmb500 million facility in the third quarter of 2008, and a US\$75 million loan in November 2008 for capital expansion projects.

The decrease in derivative liabilities is due to settlement of various non-deliverable forwards entered into in 2007 and the continued weakening of the Php against the Usd.

The Company's performance indicators are measured in terms of the following: (1) Ratio of investment properties to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (4) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment securities to stockholders' equity; (5) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (6) earnings before interest, income taxes, depreciation and amortization

(EBITDA); (7) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (8) EBITDA to interest expense which measures the ratio of EBITDA to interest expense; (9) operating income to revenues which basically measures the gross profit ratio; (10) EBITDA margin which measures the ratio of EBITDA to gross revenues and, (11) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total investment properties accounting for 79% and 86% of total assets as of December 31, 2008 and 2007, respectively. The Company's current ratio is steady at 1.09:1 and 1.01:1 as of December 31, 2008 and 2007, respectively.

Interest-bearing debt to stockholders' equity increased to 0.39:0.61 as of December 31, 2008 from 0.33:0.67 as December 31, 2007 due to additional loans for the period as mentioned earlier. Net interest-bearing debt to stockholders' equity remains healthy at 0.27:0.73 as of December 31, 2008 and 2007.

In terms of profitability, ROE remains steady at 14% for both years 2008 and 2007.

EBITDA increased 9% to P12.30 billion in 2008 from P11.33 billion in 2007. Debt to EBITDA increased to 2.48:1 from 1.83:1 as of December 31, 2008 and 2007, respectively. Likewise, EBITDA to interest expense slightly increased from 14.28:1 to 14.33:1 for the years ended December 31, 2007 and 2008, respectively. This is due to additional loans in 2008.

Consolidated operating income to revenues remains steady at 54% in 2008 and 55% in 2007, despite the opening of new malls due to cost cutting measures implemented. On a stand-alone basis, operating income margin of the Philippine and China operations is at 55% and 32%, respectively, in 2008.

EBITDA margin remains strong at 69% and 71% for the periods ended December 31, 2008 and 2007, respectively. On a stand-alone basis, EBITDA margin of the Philippines and China operations is at 69% in 2008.

Likewise, net income to revenues is stable at 36% and 37% for the years ended December 31, 2008 and 2007. On a stand-alone basis, net income margin of the Philippines and China operations is at 37% and 12%, respectively, in 2008.

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

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

SM Prime currently has 33 Supermalls strategically located in the Philippines with a total gross floor area of 4.3 million square meters. Likewise, the Company also has 3 Supermalls located in the cities of Xiamen, Jinjiang and Chengdu in China with a total gross floor area of 0.5 million square meters.

In 2008, the Company opened SM City Marikina, SM City Baliwag and SM Supercenter Rosales. The expansions of SM Megamall Atrium and The Annex at SM City North Edsa were also opened. Total gross floor area, including the three malls in China, is now at 4.7 million square meters from 4.4 million square meters as of end-2007.

Last November 13, 2007, the Board of SM Prime approved the acquisition of the three SM malls in China. The SM malls in China are similar to the SM malls in the Philippines, and are located in the southern and western parts of China namely, Xiamen, Jinjiang and Chengdu. The move will allow SM Prime to gain a foothold in China's fast-growing economy and use this as a platform for long-term growth outside of the Philippines where it is already the dominant shopping mall developer. On May 20, 2008, the SEC approved the valuation of the share-for-share swap transaction with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) and confirmed that the issuance of shares is exempt from registration requirements. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares which were issued to Grand China and Oriental Land. Pursuant to the subscription agreements entered into among SM Prime, Grand China and Oriental Land, the 912,897,212 were exchanged for 1,000 shares (100%) of Affluent Capital Enterprises Limited, holding company of the malls in Xiamen and Chengdu, and 1 share (100%) of Mega Make Enterprises Limited, holding company of the mall in Jinjiang, at a total swap price of P10,826 million. The listing of the shares was completed on June 18, 2008.

As discussed in the consolidated financial statements, the acquisition of the three malls in China was accounted for using the pooling of interests method of accounting. This method of accounting is applied as the transaction involves businesses under common control. Prior to the acquisition, the three SM malls in China were owned and controlled by the Sy Family. PFRS 3, Business Combinations, provides for the purchase method in accounting for business combinations except for business combinations of entities or businesses under common control. Under the pooling of interests method, the assets and liabilities of the acquired companies are recorded at book values and comparative amounts are restated as if the business combination had taken place at the beginning of the earliest comparative period presented.

2007

Financial and Operational Highlights

(in Million Pesos, except for financial ratios)

	Twelve months ended Dec 31		
	2007	2006	% Change
Profit & Loss Data			
Revenues	15,350	13,222	16%
Operating Expenses	6,621	5,565	19%
Operating Income	8,728	7,657	14%
Net Income	5,975	5,449	10%
EBITDA	10,989	9,444	16%
	Dec 31	Dec 31	
	2007	2006	% Change
Balance Sheet Data			
Total Assets	67,434	70,792	-5%
Total Debt	17,196	25,873	-34%
Net Debt	12,713	12,727	0%
Total Stockholders' Equity	38,858	35,672	9%
Financial Ratios			

Fixed Assets to Total Assets	0.85	0.73
Stockholders' Equity to Total Assets	0.58	0.50
Current Ratio	1.24	1.03
Debt to Equity	0.31 : 0.69	0.42 : 0.58
Net Debt to Equity	0.25 : 0.75	0.26 : 0.74
Return on Equity	0.15	0.15
Debt to EBITDA	1.56	2.74
EBITDA to Interest Expense	16.79	12.37
Operating Income to Revenues	0.57	0.58
EBITDA Margin	0.72	0.71
Net Income to Revenues	0.39	0.41

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

interest expense increased from 12.37:1 to 16.79:1 for the years ended December 31, 2006 and 2007, respectively.

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

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

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

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

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

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

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

2006

Financial and Operational Highlights

(in Million Pesos, except for financial ratios)

	Twelve months ended Dec 31		
	2006	2005	% Change
Profit & Loss Data			
Operating Revenues	13,222	10,905	21%
Operating Expenses	5,565	4,850	15%
Operating Income	7,657	6,055	26%

Net Income	5,449	4,973	10%
EBITDA	9,444	7,513	26%

	Dec 31	Dec 31	
	2006	2005	% Change
Balance Sheet Data			
Total Assets	70,792	59,429	19%
Total Debt	25,873	19,735	31%
Net Debt	12,727	9,392	36%
Total Stockholders' Equity	35,672	32,550	10%
Financial Ratios			
Fixed Assets to Total Assets	0.73	0.76	
Current Ratio	1.03	1.12	
Debt to Equity	0.42:0.58	0.38:0.62	
Net Debt to Equity	0.26:0.74	0.22:0.78	
Return on Equity	0.15	0.15	
Debt to EBITDA	2.74	2.63	
EBITDA to Interest Expense	12.37	26.96	
Operating Income to Revenues	0.58	0.56	
EBITDA Margin	0.71	0.69	
Net Income to Revenues	0.41	0.46	

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating income to revenues increased to 58% in 2006 from 56% in 2005. EBITDA margin remains strong at 71% and 69% for the years ended 2006 and 2005, respectively. On the other hand, net income

to revenues decreased at 41% compared to 46% for the year ended 2006 and 2005, respectively, mainly due to increase in interest expense and provision for income tax.

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

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

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

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

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

Changes in and disagreements with accountants on accounting and financial disclosure

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

ITEM 12. Acquisition or Disposition of Property

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

ITEM 13. Restatement of Accounts

The acquisition of 100% of the shares of Affluent and Mega Make is accounted for under the pooling of interests method. This method of accounting is applied as the transaction involves businesses under common control. Prior to the acquisition, the three SM malls in China were owned and controlled by the Sy Family. PFRS 3, Business Combinations, provides for the purchase method in accounting for business combinations except for business combinations of entities or businesses under common control. Under the pooling of interests method, the assets and liabilities of the acquired companies are recorded at book values and comparative amounts are restated as if the business combination had taken place at the beginning of the earliest comparative period presented.

D. OTHER MATTERS

ITEM 14. Action with Respect to Reports

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

- (a) Minutes of the annual meeting of stockholders held on April 24, 2008.
- (b) General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.

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

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

ITEM 15. Other Proposed Action

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

- (a) Election of directors for 2009 –2010;
- (b) Appointment of external auditors; and,
- (c) Other matters.

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

- NA -

ITEM 17. Voting Procedures

Vote required for approval

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

Methods by which votes will be counted

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

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

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

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

CASH DIVIDEND PER SHARE - ₱ 0.24 in 2008, ₱ 0.22* in 2007 and ₱ 0.20* in 2006.

Stock Prices	2008				2007			
		<u>High</u>		<u>Low</u>		<u>High</u>		<u>Low</u>
First Quarter	₱	10.00	₱	7.50	₱	13.00	₱	10.50
Second Quarter		8.50		6.90		15.00		11.00
Third Quarter		9.00		6.30		13.50		9.30
Fourth Quarter		8.60		5.80		12.75		10.00

* Cash dividends per share were retroactively adjusted for stock dividends declared in 2007.

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

As of January 31, 2009, the closing price of the Company's shares of stock is ₱7.20/share. For the month ending January 31, 2009, stock prices of SMPHI were at a high of ₱8.00 and a low of ₱7.20.

The number of shareholders of record as of January 31, 2009 was 2,788. Capital stock issued and outstanding as of January 31, 2009 was 13,329,334,367. As of December 31, 2008, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 17 of the consolidated financial statements.

The top 20 stockholders as of January 31, 2009 are as follows:

Name	No. of Shares Held	% to Total
1. SM Land, Inc (formerly Shoemart, Inc.)	5,945,158,593	44.54
2. PCD Nominee Corp. (Non-Filipino)	4,033,753,418	30.22
3. SM Investments Corp.	2,757,559,722	20.66
4. PCD Nominee Corp. (Filipino)	482,019,351	3.61
5. Sysmart Corporation	29,781,729	0.22
6. SM Prime Holdings, Inc. (treasury shares)	18,857,000	0.14
7. Sybase Equity Investments Corporation	7,035,000	0.05
8. Henry Sy, Sr.	4,394,894	0.03
9. Regina Capital Dev. Corp.	4,257,163	0.03
10. Lucky Securities, Inc.	3,274,259	0.02
11. SM Savings and Loan Association, Inc.	2,852,107	0.02
12. Macario Gaw Jr.	1,726,053	0.01
13. Philippine Air Force Educational Fund, Inc.	1,712,739	0.01
14. Southwood Mindanao Corporation	1,627,739	0.01
15. Elizabeth Sy	1,626,488	0.01
16. Morgan Guaranty Trust Co.	1,589,005	0.01
17. Jorge T. Mendiola	1,000,000	0.01
18. Agaton L. Tiu &/ or Remington Tiu	1,000,000	0.01
19. Remington Tiu &/or Agaton Tiu	1,000,000	0.01
20. Teresita Sy	984,657	0.01

There are no recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction, except with respect to Notes 16 and 17 of the 2007 consolidated financial statements. The Company has no registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

As discussed in Note 16, the Company issued a ₱3 billion fixed rate note facility in June 2008. The deal was arranged by First Metro Investment Corporation. The notes issued are considered as exempt security pursuant to Section 9.2 of R.A. No. 8799 (the Securities Regulation Code (SRC)).

As discussed in Note 17, on May 20, 2008, the SEC approved the valuation of the share-for-share swap transaction with Grand China and Oriental Land and confirmed that the issuance of shares is exempt from registration requirements. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares which were issued to Grand China and Oriental Land. The listing of the shares was completed on June 18, 2008

As discussed in Note 17, the BOD and the stockholders approved the declaration of a 25% stock dividend or approximately 2.5 billion shares during the last April 23, 2007 stockholders' meeting. The stock dividend declaration was approved by the SEC on May 29, 2007 and subsequently issued on July 24, 2007. The securities issued are considered as exempt security pursuant to Section 10.1 of the SRC.

ITEM 19. Corporate Governance

The Board of Directors, officers and staff have committed themselves to the principles and best practices contained in the Company's Corporate Governance Manual, in the belief that good corporate governance is a necessary component of sound strategic business management.

The Manual establishes the company's compliance system and plan of compliance. It states that compliance with the principles of good corporate governance starts with the Board of Directors. To this end, a director must act in a manner characterized by transparency, accountability and fairness. The Manual further enumerates the general responsibilities and specific duties and functions of the Board, as well as those of the Board Committees, Corporate Secretary, and the external and internal auditors.

The Manual mandates the conduct of communication and training programs on corporate governance. It further provides for the rights of all shareholders and the protection of the interests of minority stockholders. The Manual likewise sets the penalties for non-compliance with its provisions.

The Company also undertook several initiatives to strengthen its corporate governance practices in 2008. At the annual stockholders' meeting in April 2008, Mr. Gregorio U. Kilayko was elected as independent director. Mr. Kilayko joins Mr. Jose L. Cuisia, Jr. as the Company's second independent director.

The Company also adopted policies to govern the acceptance of gifts, insider trading and placement of advertisements. The Company issued a policy to prohibit its directors, officers and employees from soliciting or accepting gifts in any form from any business partner, except for corporate give-aways, tokens or promotional items of nominal value. The Company also adopted guidelines to prohibit its directors, officers and employees from buying or selling shares of stock of the listed SM companies while in possession of material and confidential information. The Company further issued a policy to prohibit the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or executive is one of the nominees vying for the award. This is to avoid any misconception that the Company influenced the award in any way through the payment for the advertisement. These rules supplement the existing corporate governance policies in the Manual on Corporate Governance and Code of Ethics.

Key executives also underwent a seminar/workshop on Enterprise Risk Management conducted by KPMG Manabat Sanagustin & Co. in November 2008. The seminar/workshop provided the group with

the knowledge and skills necessary to undertake risk assessment. The Company also enhanced its website and annual reports in line with its thrust of transparency of information and prompt and complete disclosure of all material facts relating to its business.

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 Ms. Teresa Cecilia H. Reyes, Assistant Vice President, at SM Corporate Offices, Building A, JW Diokno Boulevard, Mall of Asia Complex, Pasay City 1300.



www.smprime.com

Notice of Regular Annual Stockholders' Meeting
April 28, 2009, 2:30 p.m.
Function Room I, SMX Convention Center
Seashell Drive, J.W. Diokno Boulevard
Mall of Asia Complex, Pasay City

To all Stockholders:

Please take notice that the 2009 annual meeting of the stockholders of **SM PRIME HOLDINGS, INC.** will be held on April 28, 2009 at 2:30 p.m. at the Function Room I, SMX Convention Center, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City. The proposed agenda of the meeting is set forth below:

AGENDA

1. Call to order.
2. Certification of notice and quorum.
3. Approval of minutes of annual meeting of stockholders held on April 24, 2008.
4. Annual Report.
5. General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.
6. Election of directors for 2009-2010.
7. Appointment of external auditors.
8. Other matters.
9. Adjournment.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on March 30, 2009 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

Makati City, March 2, 2009.

BY THE ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in dark ink, appearing to read 'Emmanuel C. Paras'.

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

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007 (As restated - Note 5)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 16, 21, 23 and 24)	P10,737,196,836	P2,504,180,947
Investments held for trading (Notes 8, 16, 21, 23 and 24)	143,857,296	149,688,504
Receivables (Notes 3, 9, 21, 23 and 24)	3,345,742,058	2,984,719,048
Available-for-sale investments (Notes 13, 21, 23 and 24)	2,452,705,199	-
Prepaid expenses and other current assets (Note 10)	1,156,139,389	1,014,397,545
Total Current Assets	17,835,640,778	6,652,986,044
Noncurrent Assets		
Investment properties - net (Notes 3 and 11)	66,692,576,399	59,426,888,566
Shopping mall complex under construction (Notes 3 and 12)	8,481,332,742	6,393,481,283
Available-for-sale investments (Notes 13, 21, 23 and 24)	99,994,541	2,218,254,419
Derivative assets (Notes 23 and 24)	34,130,728	347,248,200
Deferred tax assets (Notes 3 and 19)	209,171,802	143,590,230
Other noncurrent assets (Note 21)	2,152,342,598	1,266,475,751
Total Noncurrent Assets	77,669,548,810	69,795,938,449
	P95,505,189,588	P76,448,924,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Loans payable (Notes 14, 21, 23 and 24)	P2,830,000,000	P1,231,957,791
Accounts payable and other current liabilities (Notes 14, 15, 21, 23 and 24)	4,141,819,171	3,112,543,834
Current portion of long-term debt (Notes 16, 21, 23 and 24)	7,784,521,000	1,405,645,000
Derivative liability (Notes 23 and 24)	901,634,262	-
Income tax payable	763,691,021	862,564,166
Total Current Liabilities	16,421,665,454	6,612,710,791
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 21, 23 and 24)	19,940,459,631	18,052,877,055
Deferred tax liabilities (Note 19)	1,087,254,617	880,296,636
Tenants' deposits (Notes 22, 23 and 24)	4,865,774,815	4,328,461,010
Derivative liability (Notes 23 and 24)	-	1,768,518,516
Other noncurrent liabilities (Note 21)	5,330,503,515	1,353,567,855
Total Noncurrent Liabilities	31,223,992,578	26,383,721,072
Equity Attributable to Equity Holders of the Parent (Note 23)		
Capital stock (Notes 17 and 25)	13,348,191,367	13,348,191,367
Additional paid-in capital - net (Notes 5 and 17)	5,444,117,541	5,444,117,541
Unrealized gain on available-for-sale investments (Notes 13 and 24)	48,346,550	40,736,047
Cumulative translation adjustment	870,642,084	178,761
Retained earnings (Note 17):		
Appropriated	7,000,000,000	7,000,000,000
Unappropriated	20,218,718,131	16,786,447,729
Treasury stock (Notes 17 and 25)	(101,474,705)	(101,474,705)
Total Equity Attributable to Equity Holders of the Parent	46,828,540,968	42,518,196,740
Minority Interests	1,030,990,588	934,295,890
Total Stockholders' Equity	47,859,531,556	43,452,492,630
	P95,505,189,588	P76,448,924,493

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
REVENUE			
Rent (Notes 3, 21 and 22)	P15,357,821,624	P13,402,488,334	P11,396,823,711
Cinema ticket sales	1,849,312,511	1,843,187,522	1,597,030,599
Interest income from short-term investments (Notes 8 and 21)	225,499,217	404,134,173	446,910,793
Dividend income (Note 13)	162,709,466	295,088,980	417,816,293
Amusement and others (Notes 8 and 24)	951,528,269	857,885,337	1,628,609,253
	<u>18,546,871,087</u>	<u>16,802,784,346</u>	<u>15,487,190,649</u>
COST AND EXPENSES			
Operating expenses (Notes 18, 20, 21 and 22)	(8,208,089,081)	(7,139,186,145)	(6,045,188,391)
Interest expense on short-term and long-term loans (Notes 14, 16 and 21)	(858,356,033)	(793,545,467)	(832,663,168)
	<u>9,480,425,973</u>	<u>8,870,052,734</u>	<u>8,609,339,090</u>
INCOME BEFORE INCOME TAX			
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)			
Current	2,592,012,734	2,678,694,046	1,921,844,308
Deferred	155,126,540	(91,857,158)	531,847,186
	<u>2,747,139,274</u>	<u>2,586,836,888</u>	<u>2,453,691,494</u>
NET INCOME	<u>P6,733,286,699</u>	<u>P6,283,215,846</u>	<u>P6,155,647,596</u>
Attributable to:			
Equity holders of the Parent (Note 25)	P6,412,215,308	P5,972,394,019	P5,854,664,702
Minority interests	321,071,391	310,821,827	300,982,894
	<u>P6,733,286,699</u>	<u>P6,283,215,846</u>	<u>P6,155,647,596</u>
Basic/Diluted Earnings Per Share (Note 25)	<u>P0.481</u>	<u>P0.448</u>	<u>P0.439</u>

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Equity Attributable to Equity Holders of the Parent									
	Capital Stock	Additional Paid-in Capital - net	Unrealized Gain on Available-for-Sale Investments	Cumulative Translation Adjustment	Retained Earnings		Treasury Stock	Total	Minority Interests	Total
	(Notes 5, 17 and 25)	(Notes 15 and 17)	(Notes 13 and 24)		Appropriated (Notes 5 and 17)	Unappropriated (Note 17)	(Notes 17 and 25)			
At January 1, 2008 (As restated)	P13,348,191,367	P5,444,117,541	P40,736,047	P178,761	P7,000,000,000	P16,786,447,729	(P101,474,705)	P42,518,196,740	P934,295,890	P43,452,492,630
Cumulative gain transferred to statement of income	-	-	-	-	-	-	-	-	-	-
Income for the year recognized directly in equity	-	-	7,610,503	-	-	-	-	7,610,503	-	7,610,503
Net income	-	-	-	-	-	6,412,215,308	-	6,412,215,308	321,071,391	6,733,286,699
Translation adjustments during the year	-	-	-	870,463,323	-	-	-	870,463,323	-	870,463,323
Total income and expense for the year	-	-	7,610,503	870,463,323	-	6,412,215,308	-	7,290,289,134	321,071,391	7,611,360,525
Cash dividends - P0.24 a share in 2008	-	-	-	-	-	(2,979,944,906)	-	(2,979,944,906)	-	(2,979,944,906)
Dividends of subsidiary	-	-	-	-	-	-	-	-	(224,376,693)	(224,376,693)
	-	-	-	-	-	(2,979,944,906)	-	(2,979,944,906)	(224,376,693)	(3,204,321,599)
At December 31, 2008	P13,348,191,367	P5,444,117,541	P48,346,550	P870,642,084	P7,000,000,000	P20,218,718,131	(P101,474,705)	P46,828,540,968	P1,030,990,588	P47,859,531,556
At January 1, 2007 (As restated)	P10,848,191,367	P5,444,117,541	P153,086,204	(P4,553,443)	P7,000,000,000	P15,991,491,733	(P101,474,705)	P39,330,858,697	P954,270,465	P40,285,129,162
Cumulative gain transferred to statement of income	-	-	(184,216,294)	-	-	-	-	(184,216,294)	-	(184,216,294)
Income for the year recognized directly in equity	-	-	71,866,137	-	-	-	-	71,866,137	-	71,866,137
Net income	-	-	-	-	-	5,972,394,019	-	5,972,394,019	310,821,827	6,283,215,846
Translation adjustments during the year	-	-	-	4,732,204	-	-	-	4,732,204	-	4,732,204
Total income and expense for the year	-	-	(112,350,157)	4,732,204	-	5,972,394,019	-	5,864,776,066	310,821,827	6,175,597,893
Cash dividends - P0.27 a share in 2007	-	-	-	-	-	(2,677,438,023)	-	(2,677,438,023)	-	(2,677,438,023)
Stock dividends - 25.2% a share in 2007	2,500,000,000	-	-	-	-	(2,500,000,000)	-	-	-	-
Dividends of subsidiary	-	-	-	-	-	-	-	-	(330,796,402)	(330,796,402)
	2,500,000,000	-	-	-	-	(5,177,438,023)	-	(2,677,438,023)	(330,796,402)	(3,008,234,425)
At December 31, 2007 (As restated)	P13,348,191,367	P5,444,117,541	P40,736,047	P178,761	P7,000,000,000	P16,786,447,729	(P101,474,705)	P42,518,196,740	P934,295,890	P43,452,492,630
At January 1, 2006 (As restated)	P9,935,294,155	P3,099,777,406	P-	P-	P7,000,000,000	P12,615,936,311	(P101,474,705)	P32,549,533,167	P877,894,152	P33,427,427,319
Income for the year recognized directly in equity	-	-	153,086,204	-	-	-	-	153,086,204	-	153,086,204
Translation adjustments during the year	-	-	-	(4,553,443)	-	-	-	(4,553,443)	-	(4,553,443)
Net income	-	-	-	-	-	5,854,664,702	-	5,854,664,702	300,982,894	6,155,647,596
Total income for the year	-	-	153,086,204	(4,553,443)	-	5,854,664,702	-	6,003,197,463	300,982,894	6,304,180,357
Issuance of common stock	912,897,212	-	-	-	-	-	-	912,897,212	-	912,897,212
Paid-in subscription in excess of par	-	7,211,887,975	-	-	-	-	-	7,211,887,975	-	7,211,887,975
Equity adjustment from business combinations	-	(4,867,547,840)	-	-	-	-	-	(4,867,547,840)	-	(4,867,547,840)
Cash dividends - P0.25 a share in 2006	-	-	-	-	-	(2,479,109,280)	-	(2,479,109,280)	-	(2,479,109,280)
Dividends of subsidiary	-	-	-	-	-	-	-	-	(224,606,581)	(224,606,581)
	912,897,212	2,344,340,135	-	-	-	(2,479,109,280)	-	778,128,067	(224,606,581)	553,521,486
At December 31, 2006 (As restated)	P10,848,191,367	P5,444,117,541	P153,086,204	(P4,553,443)	P7,000,000,000	P15,991,491,733	(P101,474,705)	P39,330,858,697	P954,270,465	P40,285,129,162

See accompanying Notes to Consolidated Financial Statements.

UNAUDITED

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

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and minority interest	P9,480,425,973	P8,870,052,734	P8,609,339,090
Adjustments for:			
Depreciation (Notes 11 and 18)	2,666,307,523	2,499,137,968	1,972,808,845
Interest and dividend income (Notes 8, 13 and 21)	(388,208,683)	(699,223,153)	(864,727,086)
Interest expense (Notes 14, 16 and 21)	858,356,033	793,545,467	832,663,168
Unrealized marked-to-market loss (gain) on derivatives - net (Note 24)	(553,766,782)	567,701,534	276,560,613
Unrealized foreign exchange loss (gain) - net	417,893,121	(514,312,972)	(668,499,763)
Unrealized marked-to-market loss (gain) on investments held for trading (Note 8)	(2,719,321)	1,894,445	(8,264,785)
Realized marked-to-market loss on derivatives (Note 24)	-	138,638,574	-
Operating income before working capital changes	12,478,287,864	11,657,434,597	10,149,880,082
Decrease (increase) in:			
Receivables	(352,682,570)	499,360,286	(418,145,088)
Prepaid expenses and other current assets	(126,914,174)	195,675,399	(14,136,816)
Increase (decrease) in:			
Accounts payable and other current liabilities	975,885,887	(383,889,774)	(1,234,665,345)
Tenants' deposits	499,861,525	285,100,301	878,417,616
Cash generated from operations	13,474,438,532	12,253,680,809	9,361,350,449
Income taxes paid	(2,667,843,679)	(2,401,184,550)	(1,840,635,298)
Net cash provided by operating activities	10,806,594,853	9,852,496,259	7,520,715,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment properties (Note 11)	(1,965,944,741)	(3,129,350,639)	(2,863,763,673)
Shopping mall complex under construction (Note 12)	(7,050,623,575)	(5,246,410,035)	(6,275,498,424)
Available-for-sale investments	-	2,500,000,000	(100,000,000)
Investments held for trading	5,497,479	114,372,281	1,347,832,047
Other noncurrent assets	(860,897,895)	70,369,776	(363,869,590)
Increase in other noncurrent liabilities	3,688,913,847	477,685,553	459,770,909
Interest and dividend received	431,754,596	1,077,981,022	682,508,841
Net cash used in investing activities	(5,751,300,289)	(4,135,352,042)	(7,113,019,890)

(Forward)

UNAUDITED

	Years Ended December 31		
	2008	2007 (As restated - Note 5)	2006 (As restated - Note 5)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans (Notes 14 and 16)	₱14,638,264,359	₱13,537,701,316	₱16,254,559,307
Proceeds from termination of interest rate swap (Note 24)	-	438,379,132	-
Capital contribution	-	-	402,007,921
Payments of:			
Loans (Notes 14 and 16)	(6,476,852,777)	(19,841,117,926)	(7,563,373,267)
Dividends	(3,204,321,599)	(3,008,234,425)	(2,703,715,861)
Interest	(1,934,055,414)	(1,967,703,014)	(2,189,362,276)
Net cash provided by (used in) financing activities	3,023,034,569	(10,840,974,917)	4,200,115,824
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	154,686,756	(232,500,000)	(347,969,784)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	8,233,015,889	(5,356,330,700)	4,259,841,301
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	2,504,180,947	7,860,511,647	3,600,670,346
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	₱10,737,196,836	₱2,504,180,947	₱7,860,511,647

See accompanying Notes to Consolidated Financial Statements.

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SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

SM Prime Holdings, Inc. (SMPH or 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 and, most recently, in the British Virgin Islands. 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.

On May 20, 2008, the SEC approved the Parent Company’s acquisition of the 100% ownership of SM Shopping Center (Chengdu) Co. Ltd. (SM Chengdu), Xiamen SM City Co. Ltd and Xiamen SM Mall Management Co. Ltd. (together, SM Xiamen) and SM International Square Jinjiang City Fujian (SM Jinjiang) [collectively, the SM China Companies] through share swap agreements with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) (see Notes 5, 11 and 17).

On November 30, 2008, the Parent Company likewise completed the acquisition of 100% ownership of SM Land (China) Limited from Grand China (see Note 5).

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

The Parent Company is 50.52% directly and indirectly-owned by SM Investments Corporation (SMIC). SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005.

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

The accompanying consolidated financial statements were authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 19, 2009.

2. Basis of Preparation

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

UNAUDITED

Statement of Compliance

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

Changes in Accounting Policies

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

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions*, requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The adoption of this interpretation has no impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. No member of the Company is an operator and, therefore, this interpretation has no impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company's defined benefit plan has been in deficit, therefore the adoption of this interpretation has no impact on its financial position or performance.

Future Changes in Accounting Policies

The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective:

- PFRS 2, *Share-based Payment (Revised)*, will become effective for financial years beginning on or after January 1, 2009. It restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The revised standard will have no impact on the Company's financial statements.

- PFRS 3, *Business Combinations (Revised)* and PAS 27, *Consolidated and Separate Financial Statements (Revised)*, will become effective for financial years beginning on or after July 1, 2009. The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The revised PAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary, as well as the loss of control of a subsidiary. The changes introduced by the revised standards must be applied prospectively and will affect future acquisitions and transactions with minority interests. The changes in the standards will have no impact on the Company's consolidated financial statements.
- PFRS 8, *Operating Segments*, will replace PAS 14, *Segment Reporting*, and will become effective for financial years beginning on or after January 1, 2009. It adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheets and consolidated statements of income and companies will need to provide explanations and reconciliations of the differences. The Company is currently assessing the impact of this revised standard.
- PAS 1, *Presentation of Financial Statements (Revised)*, will become effective for financial years beginning on or after January 1, 2009. It separates owner and non-owner changes in equity. The statements of changes in stockholders' equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Company is currently assessing the impact of this revised standard.
- PAS 23, *Borrowing Costs (Revised)*, will become effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The adoption of this amendment will have no impact on the consolidated financial statements since it is the Company's current policy to capitalize borrowing costs related to a qualifying asset.
- PAS 32, *Financial Instrument: Presentation*, and PAS 1, *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)*, will become effective for financial years beginning on or after January 1, 2009. The amendment to PAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to PAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Company expects that the amendments will have no impact on its financial position or performance.

- PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)*, will become effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The amendment will not have any impact on the consolidated financial statements as the Company has not entered into any such hedges.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, will become effective for financial years beginning on or after July 1, 2008. It requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore, part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on its consolidated financial statements as no such schemes currently exist.
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, will become effective for financial years beginning on or after January 1, 2009. The interpretation is to be applied retroactively. It clarifies when and how revenue and related expenses from the sale of real estate should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*. The interpretation will not have an impact on the consolidated financial statements because the Company does not have such activity.
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in Foreign Operations*, will become effective for financial years beginning on or after October 1, 2008. It provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Company the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The interpretation will have no impact on the consolidated financial statements.

Improvements to Existing Accounting Standards

The Company did not early adopt the following improvements to existing accounting standards that have been approved but are not yet effective. The Company is currently assessing the impact of following improvements to existing standards but anticipates that the changes will have no material effect on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures*, removes the reference to “total interest income” as a component of finance costs.
- PAS 1, *Presentation of Financial Statements*, provides that assets and liabilities classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, are not automatically classified as current in the balance sheet.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifies that only implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.
- PAS 10, *Events after the Balance Sheet Date*, clarifies that dividends declared after the end of reporting period are not obligations.
- PAS 16, *Property, Plant and Equipment*, replaces the term “net selling price” with “fair value less costs to sell”. It further clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale.
- PAS 18, *Revenue*, replaces the term “direct costs” with “transaction costs” as defined in PAS 39, *Financial Instruments: Recognition and Measurement*.
- PAS 19, *Employee Benefits*, revises the definition of past service costs, return on plan assets and short-term and long-term employee benefits. Amendments to plans that result in reduction in benefits related to future services are accounted for as curtailment. It deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, provides that loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Various terms were revised to be consistent with other PFRS.
- PAS 23, *Borrowing Costs*, revises the definition of borrowing costs to consolidate the two types of items that are considered components of borrowing costs into one – the interest expense calculated using the effective interest method calculated in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*.
- PAS 27, *Consolidated and Separate Financial Statements*, states that when a parent entity accounts for a subsidiary in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- PAS 28, *Investment in Associates*, establishes that if an associate is accounted for at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*, revises the reference to the exception to measure assets and liabilities at historical costs, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Various terms were revised to be consistent with other PFRS.
- PAS 31, *Interest in Joint Ventures*, provides that if a joint venture is accounted for at fair value in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, only the requirement of PAS 31 to disclose the commitments of the venturer and the joint venture as well as summary financial information about the assets, liabilities, income and expense will apply.
- PAS 34, *Interim Financial Reporting*, requires that earnings per share be disclosed in interim financial reports if an entity is within the scope of PAS 33, *Earnings per Share*.
- PAS 36, *Impairment of Assets*, provides that if discounted cash flows are used to estimate “fair value less costs to sell”, additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate “value in use.”
- PAS 38, *Intangible Assets*, requires that expenditure on advertising and promotional activities is recognized as an expense when the Company has either the right to access the goods or has received the services.
- PAS 39, *Financial Instruments: Recognition and Measurement*, changes in circumstances relating to derivatives are not reclassification and therefore maybe either removed from, or included in, the “fair value through profit or loss” (FVPL) classification after initial recognition. It removes the reference to a segment when determining whether an instrument qualifies as a hedge. It further requires the use of the revised effective interest rate when re-measuring a debt instrument on the cessation of fair value hedge accounting.
- PAS 40, *Investment Property*, revises the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. It revises the conditions for a voluntary change in accounting policy to be consistent with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.
- PAS 41, *Agriculture*, removes the reference to the use of pre-tax discount rate to determine fair value. It likewise removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Furthermore, it replaces the term “point-of-sale costs” with “costs to sell”.

Basis of Consolidation

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

<u>Company</u>	<u>Country of Incorporation</u>	<u>Percentage of Ownership</u>	<u>SM Malls/ Properties Owned</u>
First Asia Realty Development Corporation	Philippines	54.37	SM Megamall
Premier Central, Inc.	- do-	100.00	SM City Clark
Consolidated Prime Dev. Corp. (CPDC)	- do-	100.00	SM City Dasmariñas
Premier Southern Corp. (PSC)	- do-	100.00	SM City Batangas and SM City Lipa
San Lazaro Holdings Corporation	- do-	100.00	-
First Leisure Ventures Group Inc. (FLVGI)	- do-	50.00	San Miguel by the Bay
Affluent Capital Enterprises Limited (Affluent)	British Virgin Islands	100.00	SM City Xiamen and SM City Chengdu
Mega Make Enterprises Limited (Mega Make)	- do-	100.00	SM City Jinjiang
SM Land (China) Limited (SM Land)	Hong Kong	100.00	-

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

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

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

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

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

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

Judgments

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

Operating Lease Commitments - Company as Lessor. The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and, thus, account for the contracts as operating leases.

Rent income amounted to ₱15,358 million, ₱13,402 million and ₱11,397 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Operating Lease Commitments - Company as Lessee. The Company has entered into various lease agreements as a lessee. Management has determined that all the significant risks and benefits of ownership of the properties, which the Company leases under operating lease arrangements, remain with the lessor. Accordingly, the leases were accounted for as operating leases.

Rent expense amounted to ₱368 million, ₱321 million and ₱221 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Use of Estimates

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

Allowance for Impairment Losses on Receivables. The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, average age of accounts and collection experience. The Company performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The carrying amount of receivables amounted to ₱3,346 million and ₱2,985 million as of December 31, 2008 and 2007, respectively (see Note 9).

Impairment of AFS Investments. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more of the original cost of investment, and 'prolonged' as greater than 12 months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and future cash flows and the discount factors for unquoted equities.

The Company's AFS investments amounted to ₱2,553 million and ₱2,218 million as of December 31, 2008 and 2007, respectively (see Note 13).

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

The net book value of investment properties amounted to ₱66,693 million and ₱59,427 million as of December 31, 2008 and 2007, respectively (see Note 11).

Impairment of Nonfinancial Assets. The Company assesses at each reporting date whether there is an indication that investment properties and shopping mall complex under construction may be impaired. An investment property's recoverable amount is the higher of an investment property's fair value less costs to sell and its value in use. The recoverable amount of shopping mall complex under construction is the higher of its fair value less estimated costs to complete and sell and its value in use. When the carrying amounts of an investment property and shopping mall complex under construction exceed their recoverable amounts, the investment property and shopping mall complex under construction are considered impaired and are written down to their recoverable amounts.

The aggregate net book value of investment properties and shopping mall complex under construction amounted to ₱75,174 million and ₱65,820 million as of December 31, 2008 and 2007, respectively (see Notes 11 and 12).

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

Deferred tax assets amounted to ₱209 million and ₱144 million as of December 31, 2008 and 2007, respectively (see Note 19).

Pension. The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

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

The fair value of financial assets and liabilities are discussed in Note 24.

Contingencies. The Company has various legal claims. The Company's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house as well as outside counsel handling the prosecution and defense of the cases and are based upon an analysis of potential results. The Company currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these claims (see Note 26).

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

Cash and Cash Equivalents

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

Financial Assets and Liabilities

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

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

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

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

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

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

Financial Assets

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

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

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

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

Classified as financial assets at FVPL are investments held for trading (see Note 8) and derivative financial instruments (see Note 24).

The carrying values of financial assets under this category amounted to ₱178 million and ₱497 million as of December 31, 2008 and 2007, respectively (see Note 24).

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

Classified under this category are the Company's cash and cash equivalents and receivables (see Notes 7 and 9).

The carrying values of financial assets under this category amounted to ₱14,083 million and ₱5,489 million as of December 31, 2008 and 2007, respectively (see Note 24).

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

The Company has no investments classified as HTM as of December 31, 2008 and 2007.

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

Classified under this category are the Company's investments in redeemable preferred shares (see Note 13).

The carrying values of financial assets classified under this category amounted to ₱2,553 million and ₱2,218 million as of December 31, 2008 and 2007, respectively (see Note 24).

Financial Liabilities

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

Included in this category are the Company's derivative financial instruments with negative fair values (see Note 24).

The carrying values of financial liabilities at FVPL amounted to P902 million and P1,769 million as of December 31, 2008 and 2007, respectively (see Note 24).

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

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

This category includes loans payable, accounts payable and other current liabilities, long-term debt, tenants' deposits and other noncurrent liabilities (see Notes 14, 15, 16, 21 and 22).

The carrying values of financial liabilities under this category amounted to P44,893 million and P29,485 million as of December 31, 2008 and 2007, respectively (see Note 24).

Classification of Financial Instruments Between Debt and Equity

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

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

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

Debt Issuance Costs

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

Derivative Financial Instruments and Hedging

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset.

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

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

Impairment of Financial Assets

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

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

Offsetting Financial Instruments

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

Business Combinations

The acquisitions of the China Companies and SM Land were considered as business reorganizations of companies under common control. Thus, the acquisitions were accounted for similar to pooling of interests method.

In applying the pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Parent Company at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Parent Company. The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as "equity adjustment from business combinations", included in the stockholders equity section of the consolidated balance sheets.

Investment Properties

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

Investment properties are measured initially at cost, including transaction costs, except land, less accumulated depreciation and amortization 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 and amortization is calculated on a straight-line basis over the following estimated useful lives of the assets:

Land use rights	40 years
Buildings and improvements	35 years
Building equipment, furniture and others	3–15 years

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

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

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

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

Shopping Mall Complex Under Construction

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

Impairment of Nonfinancial Assets

The carrying value of investment properties and other nonfinancial assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of investment properties and other nonfinancial assets is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks

specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Treasury Stock

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

Revenue

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

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

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

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

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

Management Fees

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

Pension Cost

The Parent Company is a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. Pension cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any

curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the “corridor” (10% of the greater of the present value of the defined benefit obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

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

Foreign Currency Transactions

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

Foreign Currency Translations

The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Leases

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

Company as Lessee. Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income from operating leases are recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions

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

Borrowing Costs

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

Taxes

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

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

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

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

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

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

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

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

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

Basic/Diluted Earnings Per Share (EPS)

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

Geographical Segment

The Company's business of shopping mall development and operations is organized and managed separately according to geographical areas, which are in the Philippines and China. This is the basis upon which the Company reports its primary segment information presented in Note 6 to the consolidated financial statements. The Company has one primary business segment, which is shopping mall operation.

Contingencies

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

Subsequent Events

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

5. Business Combinations

Acquisition of the SM China Companies

On November 13, 2007, the BOD of SMPH approved the acquisition of 100% of the outstanding shares of the SM China Companies in exchange for SMPH common shares with a valuation based on the 30-day volume weighted average price of SMPH at ₱11.86 per share. This move is to gain a foothold in China's high-growth prospects and use this as a platform for long-term growth outside the Philippines.

On February 18, 2008, SMPH executed the subscription agreements with Grand China and Oriental Land for the exchange of the SM China Companies shares of stocks for 912,897,212 shares of SMPH to be issued upon the approval by the SEC and the Philippine Stock Exchange (PSE). Grand China owns Affluent, which is the holding company of SM Xiamen and SM Chengdu, while Oriental Land owns Mega Make, the holding company of SM Jinjiang.

On May 20, 2008, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. Pursuant to the agreements entered into among SMPH, Grand China and Oriental Land, the 912,897,212 shares of SMPH were exchanged for 1,000 shares (100% ownership) of Affluent and 1 share (100% ownership) of Mega Make at a total swap price of ₱10,827 million. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE. As a result of the acquisition, Affluent and Megamake became wholly-owned subsidiaries of SMPH (see Notes 11 and 17).

Acquisition of Affluent and Mega Make

Affluent and Mega Make are unlisted companies which were incorporated under the laws of the British Virgin Islands. Affluent indirectly owns SM Xiamen and SM Chengdu while Mega Make indirectly owns SM Jinjiang. The SM China Companies were incorporated in the People's Republic of China. The SM China Companies are engaged in mall operations and development and construction of shopping centers and property management.

Below are the details of the cost of the acquisition of Affluent:

Cost:	
Shares issued, at fair value	₱4,809,598,537
Costs associated with the acquisition	24,918,802
	<hr/>
	₱4,834,517,339
	<hr/>

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Cash outflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	P558,441
Cash paid	(24,918,802)
<u>Net cash outflow</u>	<u>(P24,360,361)</u>

The total cost of the acquisition was P4,835 million, consisting of issuance of equity instruments and costs directly attributable to the acquisition. The Parent Company issued 540,404,330 shares with a fair value of P8.90 each, the quoted market price of the shares of SMPH on the date of exchange.

Below are the details of the cost of the acquisition of Mega Make:

Cost:	
Shares issued, at fair value	P3,315,186,650
Costs associated with the acquisition	17,316,456
<u></u>	<u>P3,332,503,106</u>

Cash outflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	P17,890
Cash paid	(17,316,456)
<u>Net cash outflow</u>	<u>(P17,298,566)</u>

The total cost of the acquisition was P3,333 million, consisting of issuance of equity instruments and costs directly attributable to the acquisition. The Parent Company issued 372,492,882 shares with a fair value of P8.90 each, the quoted market price of the shares of SMPH on the date of exchange.

Acquisition of SM Land

On November 30, 2008, the Parent Company likewise completed the acquisition of 100% ownership of SM Land from Grand China for P11,360 (HK\$2,000). As a result of the acquisition, SM Land became a wholly-owned subsidiary of SMPH.

SM Land is an unlisted company which was incorporated in Hong Kong.

Below are the details of the net cash inflow from the acquisition of SM Land:

Cash inflow on acquisition:	
Net cash and cash equivalents acquired with the subsidiary	P7,511,421
Cash paid	(11,360)
<u>Net cash inflow</u>	<u>P7,500,061</u>

The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies amounting to P4,868 million is considered as “equity adjustment from business combinations”, included under “Additional paid-in capital - net” account in the stockholders equity section of the consolidated balance sheets (see note 17).

The combined assets and liabilities of SMPH, the SM China Companies and SM Land as of December 31, 2007 are presented below:

	SMPH	SM China Companies and SM Land	Eliminating Entries	Combined
Assets				
Cash and cash equivalents	₱2,114,940,507	₱389,240,440	₱-	₱2,504,180,947
Investments held for trading	149,688,504	-	-	149,688,504
Receivables	2,896,342,346	223,843,835	(135,467,133)	2,984,719,048
Prepaid expenses and other current assets	950,480,849	63,916,696	-	1,014,397,545
Investment properties - net Shopping mall complex under construction	51,985,265,210	7,028,564,871	413,058,485	59,426,888,566
AFS investments	5,470,043,177	923,438,106	-	6,393,481,283
Derivative assets	2,218,254,419	-	-	2,218,254,419
Deferred tax assets	347,248,200	-	-	347,248,200
Other noncurrent assets	40,081,403	103,508,827	-	143,590,230
	1,262,083,145	4,392,606	-	1,266,475,751
	<u>₱67,434,430,760</u>	<u>₱8,736,905,381</u>	<u>(₱277,591,352)</u>	<u>₱76,448,924,493</u>
Liabilities				
Loans payable	₱590,920,000	₱641,037,791	₱-	₱1,231,957,791
Accounts payable and other current liabilities	2,746,373,228	690,230,696	(324,060,090)	3,112,543,834
Current portion of long-term debt	840,625,000	565,020,000	-	1,405,645,000
Income tax payable	763,157,403	99,406,763	-	862,564,166
Long-term debt - net of current portion	15,764,546,055	2,288,331,000	-	18,052,877,055
Derivative liability	1,768,518,516	-	-	1,768,518,516
Deferred tax liabilities	836,818,110	43,478,526	-	880,296,636
Tenants' deposits	4,220,538,574	107,922,437	-	4,328,461,010
Other noncurrent liabilities	111,007,844	598,661,960	643,898,051	1,353,567,855
	<u>₱27,642,507,730</u>	<u>₱5,034,089,173</u>	<u>₱319,837,961</u>	<u>₱32,996,431,863</u>

The combined revenue and net income for the year ended December 31, 2007 are presented below:

	SMPH	SM China Companies and SM Land	Eliminating Entries	Combined
Revenue	₱16,187,161,759	₱615,622,587	₱-	₱16,802,784,346
Net income	5,974,985,672	(2,591,653)	-	5,972,394,019

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6. Segment Information

Geographical Segment

The geographical segment is determined as the primary segment reporting format as the Company's risks and rates of return are affected predominantly by differences in economic and political environments in which they operate. Currently, the Company owns thirty three shopping malls in the Philippines and three shopping malls in China. Each geographical area is organized and managed separately and viewed as a distinct strategic business unit that caters to different markets.

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

Segment Assets and Liabilities

Segment assets and segment liabilities do not include deferred tax assets and deferred tax liabilities, respectively.

Inter-segment Transactions

Transfer prices between geographical segments are set on an arm's length basis similar to transactions with related parties. Such transfers are eliminated in consolidation.

Geographical Segment Data

	2008			Consolidated
	Philippines	China	Eliminations	
	<i>(In Thousands)</i>			
Revenue	₱17,723,164	₱823,707	₱-	₱18,546,871
Segment results:				
Income before income tax	₱9,396,548	₱83,878	₱-	₱9,480,426
Provision for (benefit from) income tax	2,759,266	(12,127)	-	2,747,139
Net income	₱6,637,282	₱96,005	₱-	₱6,733,287
Net income attributable to:				
Equity holders of the Parent	₱6,316,211	₱96,005	₱-	₱6,412,216
Minority interests	321,071	-	-	321,071
Segment assets (excluding deferred tax)	₱84,537,422	₱12,210,040	(₱1,451,444)	₱95,296,018

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	2008			
	Philippines	China	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Segment liabilities (excluding deferred tax)	P40,315,230	P7,147,306	(P904,133)	P46,558,403
Net cash flows provided by (used in):				
Operating activities	P10,576,204	P230,391	P-	P10,806,595
Investing activities	(5,762,763)	11,463	-	(5,751,300)
Financing activities	3,218,590	(195,555)	-	3,023,035
Other information:				
Depreciation	P2,362,785	P303,522	P-	P2,666,307
Capital expenditures	7,973,086	1,043,482	-	9,016,568
	2007			
	Philippines	China	Eliminations	Consolidated
	<i>(In Thousands)</i>			
Revenue	P16,187,162	P615,622	P-	P16,802,784
Segment results:				
Income (loss) before income tax	P8,911,052	(P40,999)	P-	P8,870,053
Provision for (benefit from) income tax	2,625,244	(38,407)	-	2,586,837
Net income (loss)	P6,285,807	(P2,592)	P-	P6,283,216
Net income attributable to:				
Equity holders of the Parent	P5,974,986	(P2,592)	P-	P5,972,394
Minority interests	310,822	-	-	310,822
Segment assets (excluding deferred tax)	P67,394,350	P9,046,452	(P135,468)	P76,305,334
Segment liabilities (excluding deferred tax)	P26,805,687	P4,990,611	P319,837	P32,116,135
Net cash flows provided by (used in):				
Operating activities	P9,696,057	P156,439	P-	P9,852,496
Investing activities	(3,040,152)	(1,095,200)	-	(4,135,352)
Financing activities	(11,889,772)	1,408,797	-	(10,840,975)
Other information:				
Depreciation	P2,260,923	P238,215	P-	P2,499,138
Capital expenditures	6,914,638	1,461,123	-	8,375,761

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	2006			Consolidated
	Philippines	China	Eliminations	
	<i>(In Thousands)</i>			
Revenue	₱14,332,094	₱1,155,096	₱-	₱15,487,190
Segment results:				
Income (loss) before income tax	₱8,003,138	₱606,201	₱-	₱8,609,339
Provision for (benefit from) income tax	2,253,233	200,458	-	2,453,691
Net income (loss)	₱5,749,905	₱405,743	₱-	₱6,155,648
Net income attributable to:				
Equity holders of the Parent	₱5,448,922	₱405,743	₱-	₱5,854,665
Minority interests	300,983	-	-	300,983
Segment assets (excluding deferred tax)	₱70,759,920	₱8,484,686	₱-	₱79,244,606
Segment liabilities (excluding deferred tax)	₱33,442,431	₱4,199,143	₱-	₱37,641,574
Net cash flows provided by (used in):				
Operating activities	₱7,282,710	₱238,005	₱-	₱7,520,715
Investing activities	(5,227,155)	(1,885,865)	-	(7,113,020)
Financing activities	2,331,556	1,868,560	-	₱4,200,116
Other information:				
Depreciation and amortization	₱1,787,115	₱185,694	₱-	₱1,972,809
Capital expenditures	6,791,388	2,347,874	-	9,139,262

7. Cash and Cash Equivalents

This account consists of:

	2008	2007 (As restated - see Note 5)
Cash on hand and in banks (see Note 21)	₱956,578,714	₱832,420,931
Temporary investments (see Notes 16 and 21)	9,780,618,122	1,671,760,016
	₱10,737,196,836	₱2,504,180,947

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

8. Investments Held for Trading

This account consists of investments in Philippine government and corporate bonds with fixed interest rates ranging from 8.38% to 12.29%. The investments are U.S. dollar-denominated with various maturities ranging from 2009-2012.

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Investments held for trading includes unrealized marked-to-market gain amounting to ₱3 million in 2008, unrealized marked-to-market loss amounting to ₱2 million in 2007 and unrealized marked-to-market gain amounting to ₱8 million in 2006, the amounts of which are presented as part of “Amusement and others” account in the consolidated statements of income.

9. Receivables

This account consists of:

	2008	2007 (As restated - see Note 5)
Rent (see Note 21)	₱2,667,539,796	₱2,215,865,215
Accrued interest and others (see Note 21)	678,202,262	768,853,833
	₱3,345,742,058	₱2,984,719,048

Rent receivables generally have terms of 30-90 days.

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

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

10. Prepaid Expenses and Other Current Assets

This account consists of:

	2008	2007 (As restated - see Note 5)
Input taxes	₱384,427,769	₱639,305,345
Prepaid taxes	317,282,193	248,466,563
Advances to contractors and others	454,429,427	126,625,637
	₱1,156,139,389	₱1,014,397,545

11. Investment Properties

This account consists of:

2008				
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at beginning of year	P10,262,851,392	P51,633,767,935	P11,332,328,841	P73,228,948,168
Additions	650,022,849	711,049,319	604,872,573	1,965,944,741
Completed projects transferred from shopping mall complex under construction (see Note 12)	623,205,710	5,275,863,081	342,035,774	6,241,104,565
Translation adjustments	429,132,291	1,222,469,363	230,210,718	1,881,812,372
Balance at end of year	11,965,212,242	58,843,149,698	12,509,447,906	83,317,809,846
Accumulated Depreciation and Amortization				
Balance at beginning of year	81,224,697	8,898,246,755	4,822,588,150	13,802,059,602
Depreciation and amortization	24,667,859	1,774,141,956	867,497,708	2,666,307,523
Translation adjustments	18,827,649	88,383,453	49,655,220	156,866,322
Balance at end of year	124,720,205	10,760,772,164	5,739,741,078	16,625,233,447
Net Book Value	P11,840,492,037	P48,082,377,534	P6,769,706,828	P66,692,576,399
2007				
	Land and Land Use Rights	Buildings and Improvements	Building Equipment, Furniture and Others	Total
Cost				
Balance at beginning of year	P9,144,755,506	P46,263,826,235	P9,621,470,932	P65,030,052,673
Additions	761,105,588	1,221,238,209	1,147,006,842	3,129,350,639
Completed projects transferred from shopping mall complex under construction (see Note 10)	356,475,020	4,146,650,066	563,532,182	5,066,657,268
Translation adjustments	515,278	2,053,425	318,885	2,887,588
Balance at end of year	10,262,851,392	51,633,767,935	11,332,328,841	73,228,948,168
Accumulated Depreciation and Amortization				
Balance at beginning of year	51,308,161	7,171,869,634	4,079,565,325	11,302,743,120
Depreciation and amortization	29,895,635	1,726,284,172	742,958,161	2,499,137,968
Translation adjustments	20,901	92,949	64,664	178,514
Balance at end of year	81,224,697	8,898,246,755	4,822,588,150	13,802,059,602
Net Book Value	P10,181,626,695	P42,735,521,180	P6,509,740,691	P59,426,888,566

Included under “Land” account are the 223,474 square meters of real estate properties with a carrying value of P505 million and P413 million of December 31, 2008 and 2007, respectively, and a fair value of P13,531 million as of August 2007, planned for residential development in accordance with the cooperative contracts entered into by Mega Make and Affluent with Grand China and Oriental Land on March 15, 2007. The value of these real estate properties were not part of the consideration amounting to P10,827 million paid by the Parent Company to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying values under “Investment properties - net” account and a corresponding liability equivalent to the same amount is shown as part of “Other noncurrent liabilities” account in the consolidated balance sheets.

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A portion of investment properties located in China with a carrying value of ₱678 million and ₱561 million as of December 31, 2008 and 2007 and a fair value of ₱16,879 million as of August 2007, were mortgaged as collaterals to secure the domestic borrowings in China (see Note 16).

The fair value of investment properties amounted to ₱193,689 million as of December 31, 2006 as determined by an independent appraiser. The valuation of investment properties was based on market values. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

12. Shopping Mall Complex Under Construction

The movements of this account follow:

	2008	2007 (As restated - see Note 5)
Balance at beginning of year	₱6,393,481,283	₱5,006,047,122
Additions	8,114,905,744	6,453,924,129
Completed projects transferred to investment properties (see Note 11)	(6,241,104,565)	(5,066,657,268)
Translation adjustments	214,050,280	167,300
Balance at end of year	₱8,481,332,742	₱6,393,481,283

In 2008, shopping mall complex under construction mainly pertains to costs incurred for the development of SM City Naga, SM North EDSA Expansion and SM Xiamen Expansion.

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

Shopping mall under construction includes cost of land amounting to ₱2,173 million and ₱2,210 million as of December 31, 2008 and 2007, respectively.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱8,902 million and ₱3,048 million as of December 31, 2008 and 2007, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts as of December 31, 2008 and 2007 are valued at ₱1,361 million and ₱1,303 million, respectively.

Interest capitalized to shopping mall complex under construction amounted to ₱1,064 million and ₱1,207 million in 2008 and 2007, respectively. Capitalization rates used were 8.67% in 2008 and 9.01% in 2007.

13. Available-for-Sale Investments

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

AFS investments include unrealized gain amounting to ₱69 million and ₱58 million as of December 31, 2008 and 2007, respectively. The amount is deferred under equity, net of deferred tax liability amounting to ₱21 million and ₱17 million, respectively.

14. Loans Payable

Loans payable consist of unsecured Philippine peso-denominated loans obtained from banks amounting to ₱2,830 million as of December 31, 2008 and Philippine peso-denominated and U.S. dollar-denominated loans ₱400 million and ₱832 million (US\$20.1 million), respectively, as of December 31, 2007. The loans bear interest ranging from 8.5% to 9.0% in 2008 and 4.9% to 5.6% in 2007.

15. Accounts Payable and Other Current Liabilities

This account consists of:

	2008	2007 (As restated - see Note 5)
Trade	₱2,317,620,956	₱1,580,842,409
Accrued interest (see Notes 14, 16 and 21)	348,849,937	348,475,525
Accrued operating expenses and others (see Note 21)	1,475,348,278	1,183,225,900
	₱4,141,819,171	₱3,112,543,834

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

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

16. Long-term Debt

This account consists of:

	2008	2007 (As restated - see Note 5)
Parent Company:		
U.S. dollar-denominated five-year syndicated loan	₱7,089,004,155	₱6,103,973,522
U.S. dollar-denominated five-year, three-year and two-year bilateral loans	3,513,895,390	-
Philippine peso-denominated loans:		
Five-year floating rate notes	3,975,094,444	3,970,505,799
Five-year, seven-year and ten-year fixed rate notes	2,976,017,384	-
Five-year bilateral loan	2,986,513,483	2,980,917,334
Five-year syndicated loan	-	423,120,933
Other bank loans	2,184,847,577	2,186,907,500
Subsidiaries:		
China yuan renminbi-denominated loans:		
Ten-year bilateral loan	3,445,150,500	-
Eight-year loan	1,009,185,500	875,781,000
Five-year syndicated loan	-	1,977,570,000
Philippine peso-denominated loans:		
Five-year syndicated loans	296,772,198	691,645,967
Five-year bilateral loan	248,500,000	248,100,000
	27,724,980,631	19,458,522,055
Less current portion	7,784,521,000	1,405,645,000
	₱19,940,459,631	₱18,052,877,055

Parent Company

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

The US\$150 million unsecured loan was obtained on October 18, 2004 and will mature on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on London Inter-Bank Offered Rate (LIBOR) plus a certain percentage. On May 18, 2007, the original facility agreement was amended which effectively reduced the interest rate by 1% (see Note 24).

U.S. Dollar-denominated Five-Year, Three-Year and Two-Year Bilateral Loans

The US\$75 million unsecured loans were obtained in November 2008. The loans bear interest rates based on LIBOR plus spread with bullet maturities ranging from two to five years.

Philippine Peso-denominated Five-Year Floating Rate Notes

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

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

This represents a five-year, seven-year and ten-year fixed rate notes obtained on June 17, 2008 amounting to ₱1,000 million, ₱1,200 million and ₱800 million, respectively. The loans bear fixed interest rates of 9.31%, 9.60% and 9.85%, and will mature on June 17, 2013, 2015 and 2018, respectively (see Note 24).

Philippine Peso-denominated Five-Year Bilateral Loan

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

Philippine Peso-denominated Five-Year Syndicated Loan

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

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

This represents a five-year and seven-year fixed rate notes obtained on July 8, 2005 amounting to ₱3,500 million (₱2,000 million of which was obtained from SMIC) and ₱1,500 million, respectively. The loans bear fixed interest rates of 10.535% and 11.562%, and will mature on July 8, 2010 and 2012, respectively (see Notes 21 and 24).

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

Other Bank Loans

This account consists of the following:

- Ten-year bullet fixed rate loan obtained on August 16, 2006 amounting to ₱1,200 million. The loan carries a fixed interest rate of 9.75% and will mature on August 16, 2016 (see Note 24).
- Five-year bullet loan obtained on March 3, 2008 amounting to ₱1,000 million and will mature on March 3, 2013. The loan carries a fixed interest rate of 7.18%.
- Five-year bullet loan obtained on October 2, 2006 amounting to ₱1,000 million and will mature on October 2, 2011. The loan carries an interest rate based on PDST-F plus an agreed margin. The loan was prepaid on March 3, 2008. The related unamortized balance of debt issuance costs charged off to profit or loss amounted to ₱4 million.

- Two-year and five-year unsecured loans obtained on December 1, 2004 amounting to ₱466 million and ₱534 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively. The ₱466 million loan matured on December 1, 2006. The Company prepaid the ₱534 million loan on June 1, 2007, with an original maturity date of December 1, 2009. The related unamortized balance of debt issuance costs charged off to profit or loss amounted to ₱1 million.

Subsidiaries

China Yuan Renminbi-denominated Ten-Year Bilateral Loan

This represents a ten-year loan obtained on June 11, 2008 amounting to ¥500 million to finance the construction of shopping malls. The loan is payable in unequal annual installments until 2017. The interest rates range from 7.128% to 9.396% in 2008.

China Yuan Renminbi-denominated Eight-Year Loan

This represents eight-year loan obtained on December 28, 2005 amounting to ¥155 million to finance the construction of shopping malls. The loan is payable in unequal annual installments with two years grace period until December 2012. The loan has a floating rate with an annual repricing at prevailing rate dictated by Central Bank of China less 10%. The loan bears interest rates ranging from 6.156% to 7.047% in 2008 and 5.508% to 6.156% in 2007.

China Yuan Renminbi-denominated Five-Year Syndicated Loan

This represents a five-year syndicated loan obtained on June 9, 2006 amounting to ¥350 million to finance the construction of shopping malls. The loan is payable in equal quarterly installments until June 9, 2011. The interest rate is based on the applicable basic rate at drawdown dates and is fixed for one year. The loan bears interest rates ranging from 6.75% to 6.93%. The loan was prepaid in June 2008.

The China yuan renminbi-denominated loans are secured by investment properties in China (see Note 11).

Philippine Peso-denominated Five-Year Syndicated Loans

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

Philippine Peso-denominated Five-Year Bilateral Loan

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

As of December 31, 2007, investments held for trading and temporary investments totaling ₱1,388 million were pledged to secure the loans in compliance with the requirements of the Bangko Sentral ng Pilipinas (BSP). In accordance with the loan agreement, the Parent Company has the option to substitute the pledged investments held for trading and temporary investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 21).

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

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2008 and 2007, the Company is in compliance with the terms of its loan covenants.

Long-term debt is net of unamortized debt issuance costs amounting to ₱169 million and ₱162 million as of December 31, 2008 and 2007, respectively (see Note 23). Amortization of debt issuance costs amounted to ₱88 million, ₱78 million and ₱68 million in 2008, 2007 and 2006, respectively.

Repayment Schedule

Repayments of long-term debt are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2009	₱7,784,521,000
2010	1,326,095,500
2011	4,975,293,000
2012	4,601,667,000
2013	3,605,594,000
2014 to 2016	5,601,165,500
	<u>₱27,894,336,000</u>

17. Stockholders' Equity

The Company has an authorized capital stock of 20,000,000,000 shares with a par value of ₱1 a share. The issued shares as of December 31, 2008 and 2007 are 13,348,191,367 shares and 12,435,294,155 shares, respectively.

As discussed in Notes 1 and 5, on November 13, 2007, the BOD of SMPH approved the acquisition of 100% of the outstanding shares of the SM China Companies in exchange for SMPH common shares with a valuation based on the 30-day volume weighted average price of SMPH at ₱11.86 per share. On May 20, 2008, the SEC approved the valuation and confirmed that the issuance of the shares is exempt from the registration requirements of the Securities Regulation Code. On May 28, 2008, the PSE approved the listing of 912,897,212 new shares in connection with the share-for-share swap transaction with Grand China and Oriental Land. On June 18, 2008, SMPH's new shares issued to Grand China and Oriental Land were listed in the PSE.

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

“Additional paid-in capital - net” account includes subscriptions in excess of par value amounting to ₱10,312 million, net of equity adjustment from business combinations amounting to ₱4,868 million.

The retained earnings account is restricted for the payment of dividends to the extent of ₱3,628 million and ₱3,279 million as of December 31, 2008 and 2007, respectively, representing the cost of shares held in treasury (₱101 million in 2008 and 2007) and accumulated equity in net earnings of the subsidiaries totaling ₱3,527 million and ₱3,178 million as of December 31, 2008 and 2007, respectively. The accumulated equity in net earnings of the subsidiaries are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

18. Operating Expenses

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

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Depreciation (see Note 11)	₱2,666,307,523	₱2,499,137,968	₱1,972,808,845
Administrative (see Notes 20, 21 and 22)	2,234,579,230	1,819,324,119	1,785,848,715
Film rentals	978,937,584	965,464,907	846,217,683
Business taxes and licenses	1,095,863,965	906,915,236	705,126,726
Others (see Note 21)	1,232,400,779	948,343,915	735,186,422
	₱8,208,089,081	₱7,139,186,145	₱6,045,188,391

19. Income Tax

The components of deferred tax assets and liabilities follow:

	2008	2007 (As restated - see Note 5)
Deferred tax assets -		
Accrued expenses, unrealized foreign exchange loss and others	₱209,171,802	₱143,590,230
Deferred tax liabilities -		
Undepreciated capitalized interest, unrealized foreign exchange gains and others - net	₱1,087,254,617	₱880,296,636

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

	2008	2007 (As restated - see Note 5)	2006 (As restated - see Note 5)
Statutory tax rates	35.0%	35.0%	35.0%
Income tax effects of:			
Interest income subjected to final tax and dividend income exempt from income tax	(1.4)	(2.8)	(3.5)
Change in enacted tax rates and others	(4.6)	(3.1)	(3.0)
Effective tax rates	29.0%	29.1%	28.5%

20. Pension Cost

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

Net Pension Cost

	2008	2007	2006
Current service cost	P2,728,816	P2,518,520	P582,378
Interest cost on benefit obligation	2,056,792	1,544,607	640,148
Expected return on plan assets	(719,745)	(593,527)	(398,371)
Net actuarial loss recognized	401,546	368,777	7,799
Net pension cost	P4,467,409	P3,838,377	P831,954
Actual return on plan assets	(P477,554)	P619,837	P290,949

Net Pension Liability

	2008	2007	2006
Defined benefit obligation	P18,098,581	P24,632,241	P18,632,172
Fair value of plan assets	(15,807,447)	(7,706,515)	(4,946,058)
Unfunded obligation	2,291,134	16,925,726	13,686,114
Unrecognized net actuarial losses	(4,055,842)	(14,509,600)	(12,926,517)
Net pension liability	(P1,764,708)	P2,416,126	P759,597

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

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

	2008	2007	2006
Defined benefit obligation, January 1	P24,632,241	P18,632,172	P5,334,567
Interest cost on benefit obligation	2,056,792	1,544,607	640,148
Current service cost	2,728,816	2,518,520	582,378
Benefits paid	(69,757)	(41,228)	-
Actuarial losses (gains) on obligation	(11,249,511)	1,978,170	12,075,079
Defined benefit obligation, December 31	P18,098,581	P24,632,241	P18,632,172

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The changes in the fair value of plan assets follow:

	2008	2007	2006
Fair value of plan assets, January 1	₱7,706,515	₱4,946,058	₱3,319,755
Expected return on plan assets	719,745	593,527	398,371
Benefits paid	(69,757)	(41,228)	-
Contributions	8,648,243	2,181,848	1,335,354
Actuarial gains (losses)	(1,197,299)	26,310	(107,422)
Fair value of plan assets, December 31	₱15,807,447	₱7,706,515	₱4,946,058

The Company expects to contribute ₱9 million to its defined benefit pension plan in 2009.

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

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

	2008	2007	2006
Discount rate	10.3%	8.3%	8.3%
Expected rate of return on plan assets	6.0%	6.0%	12.0%
Future salary increases	10%	10.0%	10.0%

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

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

	2008	2007	2006
Defined benefit obligation	₱18,098,581	₱24,549,785	₱18,632,172
Plan assets	15,807,447	7,624,059	4,946,058
Deficit	2,291,134	16,925,726	13,686,114
Experience adjustments on plan liabilities	1,426,249	1,895,714	12,075,079
Experience adjustments on plan assets	1,197,299	56,146	107,422

21. Related Party Disclosures

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

- a. The Company has existing lease agreements with the SM Retail Group and SM Banking Group. Total rent revenue amounted to ₱5,265 million, ₱4,146 million and ₱3,513 million in 2008, 2007 and 2006, respectively. Rent receivable, included under "Receivables" account in the consolidated balance sheets, amounted to ₱1,151 million and ₱947 million as of December 31, 2008 and 2007, respectively.

- b. The Company leases the land where two of its malls are located from SMIC and Shoemart, Inc. for a period of 50 years, renewable upon mutual agreement of the parties. The Company shall pay SMIC and Shoemart, Inc. a minimum fixed amount or a certain percentage of its gross rent income, whichever is higher. Rent expense, included under “Operating expenses” account in the consolidated statements of income, amounted to ₱158 million, ₱164 million and ₱105 million in 2008, 2007 and 2006, respectively. Rent payable to SMIC and Shoemart, Inc., included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱19 million and ₱16 million as of December 31, 2008 and 2007, respectively.
- c. The Company pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for managing the operations of the malls. Total management fees, included under “Operating expenses” account in the consolidated statements of income, amounted to ₱508 million, ₱473 million and ₱403 million in 2008, 2007 and 2006, respectively. Accrued management fees, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱42 million and ₱61 million as of December 31, 2008 and 2007, respectively.
- d. The Company has certain bank accounts and cash placements that are maintained with the SM Banking Group. Cash and cash equivalents and investments held for trading totalled ₱10,349 million and ₱2,115 million as of December 31, 2008 and 2007, respectively. Pledged investments held for trading of ₱1,388 million as of December 31, 2007, are deposited with Banco de Oro (BDO) (see Note 16). Interest income amounted to ₱210 million, ₱386 million and ₱376 million in 2008, 2007 and 2006, respectively. Accrued interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱37 million and ₱16 million as of December 31, 2008 and 2007, respectively.
- e. As of December 31, 2008 and 2007, the outstanding loans payable and long-term debt from the SM Banking Group and SMIC amounted to ₱4,700 million and ₱367 million, respectively. Interest expense amounted to ₱27 million, ₱115 million and ₱393 million in 2008, 2007 and 2006, respectively. Accrued interest payable, included under “Accounts payable and other current liabilities” account in the consolidated balance sheets, amounted to ₱4 million and ₱3 million as of December 31, 2008 and 2007, respectively.
- f. As of December 31, 2008 and 2007, a portion of AFS investments amounting to ₱2,453 million and ₱2,116 million pertains to mandatorily redeemable preferred shares of BDO (see Note 13). Interest income amounted to ₱154 million, ₱138 million and ₱160 million in 2008, 2007 and 2006, respectively. Interest receivable, included under “Receivables” account in the consolidated balance sheets, amounted to ₱31 million and ₱95 million as of December 31, 2008 and 2007, respectively.
- g. On January 2, 2008, the SM China Companies entered into land development contracts with Grand China and Oriental Land to jointly develop certain sites in the cities of Jinjiang, Chengdu and Xiamen, with areas of 170,082 square meters, 19,952 square meters and 33,440 square meters, respectively. Under the terms of the contracts, the SM China Companies will provide the land use rights while Grand China and Oriental Land will fund the development expenses, among others.

- h. The total compensation paid to key management personnel of the Company amounted to ₱18 million, ₱16 million and ₱13 million in 2008, 2007 and 2006, respectively. No other special benefits are paid to management personnel other than the usual monthly salaries and government mandated bonuses.

22. Lease Agreements

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

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

23. Financial Risk Management Objectives and Policies

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

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

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

Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to the Company's financial instruments with a floating interest rate and fixed interest rate. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Re-pricing of floating rate financial instruments is done every three to six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. The details of financial instruments that are exposed to interest rate risk are disclosed in Notes 8, 13, 14 and 16.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As of December 31, 2008 and 2007, after taking into account the effect of interest rate swaps, approximately 42% and 51%, respectively, of the Company's long-term borrowings are at a fixed rate of interest.

Interest Rate Risk Table

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

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
2008	100	(P46,855,361)
	50	(23,427,680)
	(100)	46,855,361
	(50)	23,427,680
 2007	 100	 (25,223,836)
	50	(12,611,918)
	(100)	25,223,836
	(50)	12,611,918

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

	2008						Total	Debt Issuance	Carrying Value
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years			
Fixed rate:									
Philippine peso-denominated five-year syndicated loan	P300,000,000	P-	P-	P-	P-	P-	P300,000,000	(P3,227,802)	P296,772,198
Interest rate	6.75%								
Philippine peso-denominated loans fixed rate notes	-	-	-	-	1,000,000,000	2,000,000,000	3,000,000,000	(23,982,616)	2,976,017,384
Interest rate					9.31%	9.60%-9.85%			
Other bank loans	-	-	-	-	1,000,000,000	1,200,000,000	2,200,000,000	(15,152,423)	2,184,847,577
Interest rate					7.18%	9.75%			
Floating rate:									
U.S. dollar-denominated five-year syndicated loan	\$150,000,000	\$-	\$-	\$-	\$-	\$-	7,128,000,000	(38,995,845)	7,089,004,155
Interest rate	LIBOR+margin%								
U.S. dollar-denominated bilateral loans	\$-	\$20,000,000	\$30,000,000	\$-	\$25,000,000	\$-	3,564,000,000	(50,104,610)	3,513,895,390
Interest rate		LIBOR+spread	LIBOR+spread		LIBOR+spread				
China yuan renminbi-denominated eight-year bilateral loan	¥30,000,000	¥35,000,000	¥40,000,000	¥40,000,000	¥-	¥-	1,009,185,500	-	1,009,185,500
Interest rate	6.16%-7.05%	6.16%-7.05%	6.16%-7.05%	6.16%-7.05%					
China yuan renminbi-denominated ten-year loan	¥10,000,000	¥10,000,000	¥30,000,000	¥40,000,000	¥60,000,000	¥345,000,000	3,445,150,500	-	3,445,150,500
Interest rate	7.13%-9.40%	7.13%-9.40%	7.13%-9.40%	7.13%-9.40%	7.13%-9.40%	7.13%-9.40%			
Philippine peso-denominated five-year floating rate loan	P-	P-	P-	P3,998,000,000	P-	P-	3,998,000,000	(22,905,556)	3,975,094,444
Interest rate				PDST-F+margin%					
Philippine peso-denominated five-year bilateral loans	P78,125,000	P62,500,000	P3,062,500,000	P46,875,000	P-	P-	3,250,000,000	(14,986,517)	3,235,013,483
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%					
							P27,894,336,000	(P169,355,369)	P27,724,980,631

	2008						Total	Debt Issuance	Carrying Value
	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	5-<6 Years	>6 Years			
Fixed rate:									
Philippine peso-denominated five-year syndicated loan	₱825,000,000	₱300,000,000	₱-	₱-	₱-	₱-	₱1,125,000,000	(₱10,233,100)	₱1,114,766,900
Interest rate	6.75%-7.06%	6.75%							
Other bank loans	-	-	-	-	-	1,200,000,000	1,200,000,000	(9,342,500)	1,190,657,500
Interest rate						9.75%			
Floating rate:									
U.S. dollar-denominated five-year syndicated loan	\$-	\$150,000,000	\$-	\$-	\$-	\$-	6,192,000,000	(88,026,478)	6,103,973,522
Interest rate		LIBOR+margin%							
China yuan renminbi-denominated five-year syndicated loan	¥90,000,000	¥110,000,000	¥100,000,000	¥50,000,000	¥-	¥-	1,977,570,000	-	1,977,570,000
Interest rate	6.75%-6.93%	6.75%-6.93%	6.75%-6.93%	6.75%-6.93%					
China yuan renminbi-denominated eight-year bilateral loan	¥10,000,000	¥30,000,000	¥35,000,000	¥40,000,000	¥40,000,000	¥-	875,781,000	-	875,781,000
Interest rate	5.51%-6.16%	5.51%-6.16%	5.51%-6.16%	5.51%-6.16%	5.51%-6.16%				
Philippine peso-denominated five-year floating rate loan	₱-	₱-	₱-	₱-	₱4,000,000,000	₱-	4,000,000,000	(29,494,201)	3,970,505,799
Interest rate					PDST-F+margin%				
Philippine peso-denominated five-year bilateral loans	₱15,625,000	₱62,500,000	₱62,500,000	₱3,062,500,000	₱46,875,000	₱-	3,250,000,000	(20,982,666)	3,229,017,334
Interest rate	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%	PDST-F+margin%				
Other bank loans	-	-	-	-	₱1,000,000,000	-	1,000,000,000	(3,750,000)	996,250,000
Interest rate				PDST-F+margin%					
							₱19,620,351,000	(₱161,828,945)	₱19,458,522,055

Foreign Currency Risk

The Company's foreign currency-denominated monetary assets and liabilities amounted to ₱6,655 million (US\$140 million) and ₱7,366 million (US\$155 million), respectively, as of December 31, 2008 and ₱3,687 million (US\$89 million) and ₱3,665 million (US\$89 million), respectively, as of December 31, 2007.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ₱47.52 to US\$1.00 and ₱41.28 to US\$1.00, the Philippine peso to U.S. dollar exchange rates as of December 31, 2008 and 2007, respectively.

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

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

	Increase (Decrease) in ₱ to US\$ rate	Effect on Income before Income Tax
2008	₱1.50	(₱10,224,225)
	1.00	(6,816,150)
	(1.50)	10,224,225
	(1.00)	6,816,150
 2007	 1.50	 (14,474,864)
	1.00	(9,649,909)
	(1.50)	14,474,864
	(1.00)	9,649,909

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

Credit Risk

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

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, investments held for trading, AFS financial assets and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The fair values of these financial instruments are disclosed in Note 24.

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

Liquidity Risk

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

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

	2008			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	P2,924,884,028	P-	P-	P2,924,884,028
Accounts payable and other current liabilities	4,141,819,171	-	-	4,141,819,171
Long-term debt (including current portion)	7,784,521,000	14,787,731,328	5,152,728,303	27,724,980,631
Derivative liability	901,634,262	-	-	901,634,262
Tenants' deposits	-	4,865,774,815	-	4,865,774,815
Other noncurrent liabilities	-	5,330,503,515	-	5,330,503,515
	P15,752,858,461	P24,984,009,658	P5,152,728,303	P45,889,596,422

	2007			
	Less than 12 Months	2 to 5 Years	More than 5 Years	Total
Loans payable	P1,273,449,263	P-	P-	P1,273,449,263
Accounts payable and other current liabilities	3,112,543,834	-	-	3,112,543,834
Long-term debt (including current portion)	1,405,645,000	16,855,709,138	1,197,167,917	19,458,522,055
Derivative liability	-	1,768,518,516	-	1,768,518,516
Tenants' deposits	-	4,328,461,010	-	4,328,461,010
Other noncurrent liabilities	-	1,353,567,855	-	1,353,567,855
	P5,791,638,097	P24,306,256,519	P1,197,167,917	P31,295,062,533

Capital Management

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

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

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

As of December 31, 2008 and 2007, the Company's ratio of interest-bearing debt to total capital and ratio of net interest-bearing debt to total capital are as follows:

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Interest-bearing Debt to Total Capital

	2008	2007 (As restated - see Note 5)
Loans payable	₱2,830,000,000	₱1,231,957,791
Current portion of long-term debt	7,784,521,000	1,405,645,000
Long-term debt - net of current portion	19,940,459,631	18,052,877,055
Total interest-bearing debt (a)	30,554,980,631	20,690,479,846
Total equity attributable to equity holders of the Parent	46,828,540,968	42,518,196,740
Total interest-bearing debt and equity attributable to equity holders of the Parent (b)	₱77,383,521,599	₱63,208,676,586
Gearing ratio (a/b)	39%	33%

Net Interest-bearing Debt to Total Capital

	2008	2007 (As restated - see Note 5)
Loans payable	₱2,830,000,000	₱1,231,957,791
Current portion of long-term debt	7,784,521,000	1,405,645,000
Long-term debt - net of current portion	19,940,459,631	18,052,877,055
Less cash and cash equivalents, investments held for trading and AFS investments	(13,433,753,872)	(4,872,123,870)
Total net interest-bearing debt (a)	17,121,226,759	15,818,355,976
Total equity attributable to equity holders of the Parent	46,828,540,968	42,518,196,740
Total net interest-bearing debt and equity attributable to equity holders of the Parent (b)	₱63,949,767,727	₱58,336,552,716
Gearing ratio (a/b)	27%	27%

24. Financial Instruments

Fair Values

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

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱10,737,196,836	₱10,737,196,836	₱2,504,180,947	₱2,504,180,947
Receivables	3,345,742,058	3,345,742,058	2,984,719,048	2,984,719,048
	14,082,938,894	14,082,938,894	5,488,899,995	5,488,899,995
Financial assets at FVPL:				

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	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments held for trading	143,857,296	143,857,296	149,688,504	149,688,504
Derivative assets	34,130,728	34,130,728	347,248,200	347,248,200
	177,988,024	177,988,024	496,936,704	496,936,704
AFS investments	2,552,699,740	2,552,699,740	2,218,254,419	2,218,254,419
	₱16,813,626,658	₱16,813,626,658	₱8,204,091,118	₱8,204,091,118
Financial Liabilities				
Financial liabilities at FVPL -				
Derivative liability	901,634,262	901,634,262	1,768,518,516	1,768,518,516
Other financial liabilities:				
Loans payable	2,830,000,000	2,830,000,000	1,231,957,791	1,231,957,791
Accounts payable and other current liabilities	4,141,819,171	4,141,819,171	3,112,543,834	3,112,543,834
Long-term debt (including current portion)	27,724,980,631	28,394,830,575	19,458,522,055	20,037,792,058
Tenants' deposits	4,865,774,815	4,794,475,073	4,328,461,010	4,193,356,615
Other noncurrent liabilities	5,330,503,515	5,252,393,955	1,353,567,855	1,315,129,585
	44,893,078,132	45,413,518,774	29,485,052,545	29,890,779,883
	₱45,794,712,394	₱46,315,153,036	₱31,253,571,061	₱31,659,298,399

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

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

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

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

AFS Investments. The fair value of investments in mandatorily redeemable preferred shares where there is no active market is based on the present value of future cash flows discounted at prevailing interest rates. Discount rates used range from 3.54% to 8.59% as of December 31, 2008 and 6.19% to 7.95% as of December 31, 2007.

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

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 5.64% to 11.5% as of December 31, 2008 and 5.18% to 7.36% as of December 31, 2007.
Variable Rate Loans	For variable rate loans that re-price every 3 months, the face value approximates the fair value because of the recent and regular repricing based on current market rates. For variable rate loans that re-price every 6 months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate from the period up to the next re-pricing date. Discount rate used was 0.82% to 2.40% as of December 31, 2008 and 5.20% as of December 31, 2007.

Tenants' Deposits and Other Noncurrent Liabilities. Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 7.24% to 7.44% as of December 31, 2008 and 6.67% to 6.76% as of December 31, 2007.

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

Derivative Financial Instruments

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

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

	2008		
	<1 Year	>1-<2 Years	>2-<5 Years
Cross-Currency Swap			
Floating-Fixed:			
Notional amount	\$70,000,000		
Receive-floating rate	6 months		
	LIBOR+margin%		
Pay-fixed rate	12.58-12.75%		
Weighted swap rate	P56.31		
Interest Rate Swaps			
Floating-Fixed:			
Notional amount	\$80,000,000		
Receive-floating rate	6 months		
	LIBOR+margin%		
Pay-fixed rate	5.34%		
Fixed-Floating:			
Notional amount	P1,000,000,000	P1,000,000,000	P1,000,000,000
Receive-fixed rate	9.3058%	9.3058%	9.3058%
Pay-floating rate	3MPDST+margin%	3MPDST+margin%	3MPDST+margin%

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	2007	
	<1 Year	>1-<2 Years
Cross-Currency Swap		
Floating-Fixed:		
Notional amount	\$70,000,000	\$70,000,000
Receive-floating rate	6 months	6 months
	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	12.58-12.75%	12.58-12.75%
Weighted swap rate	₱56.31	₱56.31
Interest Rate Swap		
Floating-Fixed:		
Notional amount	\$80,000,000	\$80,000,000
Receive-floating rate	6 months	6 months
	LIBOR+margin%	LIBOR+margin%
Pay-fixed rate	5.34%	5.34%

Cross Currency Swaps. In 2004, the Parent Company entered into cross currency swap agreements with an aggregate notional amount of US\$70 million and weighted average swap rate of ₱56.31 to US\$1. Under these agreements, the Parent Company effectively swaps the principal amount and interest of the U.S. dollar-denominated five-year syndicated loan into Philippine peso-denominated loans with payments up to October 2009. As of December 31, 2008 and 2007, the cross currency swaps have negative fair values of ₱861 million and ₱1,496 million, respectively.

Interest Rate Swaps. In 2008, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱1,000 million. Under these agreements, the Parent Company effectively swaps the fixed rate Philippine peso-denominated five-year syndicated fixed rate notes into floating rate loans based on PDST-F plus an agreed margin with quarterly payment intervals up to June 2013. As of December 31, 2008, the fixed to floating interest rate swaps have positive fair values of ₱34 million.

Also in 2004, the Parent Company entered into US\$ interest rate swap agreements with an aggregate notional amount of US\$80 million. Under these agreements, the Parent Company effectively swaps the floating rate U.S. dollar-denominated five-year syndicated loan into fixed rate loans with semi-annual payment intervals up to October 2009. As of December 31, 2008 and 2007, the floating to fixed interest rate swaps have negative fair values of ₱41 million and positive fair value of ₱20 million, respectively.

In 2005, the Parent Company entered into Philippine peso interest swap agreements with an aggregate notional amount of ₱3,750 million. Under these agreements, the Parent Company effectively swaps these fixed rate Philippine peso-denominated five-year and seven-year syndicated fixed rate notes into floating rate loans based on Mart 1 plus an agreed margin with semi-annual payment intervals up to July 2012. As of December 31, 2006, the fixed to floating interest rate swaps have positive fair values of ₱577 million. As discussed in Note 16, in June 2007, as a result of the prepayment of the underlying obligation, the related interest rate swap was also terminated with net proceeds amounting to ₱438 million and realized loss of ₱139 million.

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

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

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

Non-deliverable Forwards. In 2007, the Parent Company entered into forward contracts to sell ₱ and buy US\$ with different counterparties at an aggregate notional amount of US\$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US\$160 million. The average forward rates range from ₱41.05 to ₱46.53, which matured in various dates in 2008. Also in 2007, the Parent Company entered into forward contracts to sell US\$ and buy ₱ with different counterparties at an aggregate notional amount of US\$180 million. As of December 31, 2007, the outstanding aggregate notional amount is US\$160 million. The average forward rates range from ₱41.31 to ₱46.68, which matured in various dates in 2008. As of December 31, 2007, the net fair value of the above forward contracts is immaterial. The Parent Company recognized derivative asset and derivative liability amounting to ₱272 million from these forward contracts. Realized gain from these forward contracts amounted to ₱47 million in 2008.

The net unrealized marked-to-market gain and loss on derivative transactions, shown as part of “Amusement and others” account in the consolidated statements of income, amounted to ₱609 million, ₱568 million and ₱277 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Fair Value Changes on Derivatives

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

	2008	2007
Balance at beginning of year	(₱1,421,270,316)	(₱276,560,613)
Net changes in fair value during the year	608,707,480	(567,691,997)
Fair value of settled contracts	(54,940,698)	(577,017,706)
Balance at end of year	(₱867,503,534)	(₱1,421,270,316)

25. Basic/Diluted EPS Computation

Basic EPS is computed as follows:

	2008	2007	2006
Net income attributable to equity holders of the Parent (a)	₱6,412,215,308	₱5,972,394,019	₱5,854,664,702
Common shares issued at beginning of year	9,935,294,155	9,935,294,155	9,935,294,155
Issuance of shares to Grand China and Oriental Land (see Notes 5 and 17)	912,897,212	912,897,212	912,897,212
Effect of stock dividends in 2007 (see Note 17)	2,500,000,000	2,500,000,000	2,500,000,000
Common shares issued at end of year	13,348,191,367	13,348,191,367	13,348,191,367
Less weighted average number of treasury shares acquired during the year	18,857,000	18,857,000	18,857,000
Weighted average number of common shares outstanding (b)	13,329,334,367	13,329,334,367	13,329,334,367
Earnings per share (a/b)	₱0.481	₱0.448	₱0.439

26. Other Matters

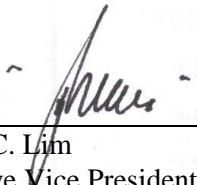
The Company is involved in certain tax cases filed with the Court of Tax Appeals (CTA) relative to the vatability of gross receipts derived from cinema ticket sales. A favorable decision was rendered by the CTA on September 22, 2006. The Bureau of Internal Revenue's (the Respondent) motion for reconsideration was denied on December 18, 2006. The Respondent has filed an appeal on January 19, 2007, which the CTA nullified in its decision dated April 30, 2008 and resolution dated June 24, 2008. Likewise, on December 18, 2008, the CTA also dismissed a similar case for lack of merit. The Respondent has yet to file a motion for reconsideration as of February 19, 2009. In the opinion of management and its legal counsel, the eventual resolution of these cases will not have any material adverse effect on the consolidated financial statements.

PART III.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on March 6, 2009.

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



Jeffrey C. Lim
Executive Vice President