

SEC Number 00008
File Number _____

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

(Company's Full Name)

**3rd Floor, Makati Stock Exchange Building
Ayala Avenue, Makati City**

(Company's Address)

810-2016

(Telephone Number)

December 31

(Year Ending)

(month & day)

**Annual Audited Consolidated
Financial Statements**

Form Type

Amendment Designation (If applicable)

December 31, 2001

Period Ended Date

(Secondary License Type and File Number)

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2001

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co

6760 Ayala Avenue
1226 Makati City
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The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
3rd Floor, Makati Stock Exchange Building
Ayala Avenue, Makati City

We have audited the accompanying consolidated balance sheets of SM Prime Holdings, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SM Prime Holdings, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

J. J. M. SEBASTIAN
Partner
CPA Certificate No. 61687
PTR No. 6723202
January 2, 2002
Makati City

March 22, 2002

SGV & Co

Report of Independent Public Accountants

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PTR No. 6723202
January 2, 2002
Makati City

March 22, 2002

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		December 31
	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	7,636,446,646	10,696,645,295
Receivables - net (Notes 4 and 12)	944,758,613	942,110,748
Prepaid expenses and other current assets	123,215,633	123,173,306
Total Current Assets	8,704,420,892	11,761,929,349
Noncurrent Assets		
Property and equipment - net (Notes 5 and 8)	27,818,756,114	24,332,191,913
Other assets - net (Notes 6 and 8)	205,174,111	594,122,441
Total Noncurrent Assets	28,023,930,225	24,926,314,354
	36,728,351,117	36,688,243,703
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 7 and 10)	931,413,666	1,193,647,822
Income tax payable	138,163,801	57,623,793
Current portion of long-term debt and loans payable (Note 8)	3,652,664,900	1,102,760,600
Dividends payable	-	45,626,901
Total Current Liabilities	4,722,242,367	2,399,659,116
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 8)	750,000,000	6,051,585,160
Deferred tax liabilities - net (Note 10)	229,555,044	199,732,805
Tenants' deposits	1,784,917,708	1,586,424,220
Minority interest	797,845,778	798,256,390
Total Noncurrent Liabilities	3,562,318,530	8,635,998,575
Stockholders' Equity		
Capital stock	9,935,294,157	9,935,294,157
Additional paid-in capital	3,099,777,406	3,099,777,406
Retained earnings (Note 9)	15,475,735,554	12,684,531,346
Treasury shares (Note 9)	(67,016,897)	(67,016,897)
Total Stockholders' Equity	28,443,790,220	25,652,586,012
	36,728,351,117	36,688,243,703

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2001	2000	1999
REVENUES			
Rent (Note 12)	5,670,616,686	4,854,510,329	4,183,346,733
Cinema ticket sales	1,120,185,225	993,057,031	942,041,020
Others	352,305,166	315,306,855	270,116,729
	7,143,107,077	6,162,874,215	5,395,504,482
	2,886,780,188	2,314,842,681	1,911,895,413
OPERATING EXPENSES (Note 13)			
	4,256,326,889	3,848,031,534	3,483,609,069
INCOME FROM OPERATIONS			
INTEREST AND OTHERS - Net	93,140,278	201,890,874	409,533,248
	4,349,467,167	4,049,922,408	3,893,142,317
INCOME BEFORE INCOME TAX AND MINORITY SHARE IN NET EARNINGS OF SUBSIDIARIES			
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 10)			
Current	737,789,683	626,047,927	780,489,860
Deferred	(56,306,819)	92,360,721	111,248,003
	681,482,864	718,408,648	891,737,863
	3,667,984,303	3,331,513,760	3,001,404,454
INCOME BEFORE MINORITY SHARE IN NET EARNINGS OF SUBSIDIARIES			
	182,117,654	193,668,356	144,186,602
MINORITY SHARE IN NET EARNINGS OF SUBSIDIARIES			
	3,485,866,649	3,137,845,404	2,857,217,852
NET INCOME (Note 11)			
	0.351	0.316	0.288
Earnings Per Share (Note 11)			

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2001	2000	1999
CAPITAL STOCK - 1 par value			
Authorized - 10,000,000,000 shares			
Issued - 9,935,294,157 shares	9,935,294,157	9,935,294,157	9,935,294,157
ADDITIONAL PAID-IN CAPITAL	3,099,777,406	3,099,777,406	3,099,777,406
RETAINED EARNINGS (Note 9)			
Appropriated	7,000,000,000	—	—
Unappropriated:			
Balance, beginning of year	12,684,531,346	10,241,551,383	8,079,198,972
Net income	3,485,866,649	3,137,845,404	2,857,217,852
Cash dividends - 0.07 a share	(694,662,441)	(694,865,441)	(694,865,441)
Appropriation for capital expansion	(7,000,000,000)	—	—
Balance, end of year	8,475,735,554	12,684,531,346	10,241,551,383
	15,475,735,554	12,684,531,346	10,241,551,383
TREASURY STOCK - 11,545,000 shares in 2001 and 2000 and 8,645,000 shares in 1999 (Note 9)	(67,016,897)	(67,016,897)	(55,495,685)
		25,652,586,012	23,221,127,261
	28,443,790,220		

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	4,349,467,167	4,049,922,408	3,893,142,317
Adjustments for:			
Depreciation and amortization	773,098,613	731,455,967	561,073,057
Unrealized foreign exchange loss	148,835,306	29,879,838	385,981,559
Interest expense	613,613,238	744,441,939	638,505,552
Interest income	(893,257,034)	(1,061,459,204)	(1,005,523,570)
Operating income before working capital changes	4,991,757,290	4,494,240,948	4,473,178,915
Increase in:			
Receivables	(43,155,260)	(100,777,693)	(57,254,886)
Prepaid expenses other current assets	(4,580,490)	(54,413,118)	(1,158,270)
Increase (decrease) in:			
Accounts payable and accrued expenses	(102,572,867)	225,200,498	(228,850,699)
Tenants' deposits	198,493,488	324,692,590	179,358,811
Cash generated from operations	5,039,942,161	4,888,943,225	4,365,273,871
Income taxes paid	(657,249,675)	(761,306,043)	(842,999,284)
Net cash provided by operating activities	4,382,692,486	4,127,637,182	3,522,274,587
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment - net	(4,257,644,197)	(3,151,623,225)	(2,316,861,304)
Interest received	933,764,429	1,016,518,999	956,932,195
Decrease (increase) in other assets	388,948,330	(25,631,993)	14,505,166
Net cash used in investing activities	(2,934,931,438)	(2,160,736,219)	(1,345,423,943)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Long-term debt	(2,854,427,296)	(3,029,940,214)	(1,329,090,269)
Dividends	(740,289,342)	(831,758,540)	(694,865,441)
Treasury stock	-	(11,521,212)	-
Interest paid	(684,625,923)	(726,781,099)	(488,438,527)
Proceeds from availment of loans	-	1,495,988,500	1,012,023,700
Dividends paid to minority interest	-	-	(64,794,600)
Increase (decrease) in minority interest	(182,528,266)	-	14,462
Net cash used in financing activities	(4,461,870,827)	(3,104,012,565)	(1,565,150,675)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND OTHER CASH ITEMS	(46,088,870)	296,211,169	56,074,384
NET INCREASE (DECREASE) IN CASH AND OTHER CASH ITEMS	(3,060,198,649)	(840,900,433)	667,774,353
CASH AND OTHER CASH ITEMS AT BEGINNING OF YEAR	10,696,645,295	11,537,545,728	10,869,771,375
CASH AND OTHER CASH ITEMS AT END OF YEAR	7,636,446,646	10,696,645,295	11,537,545,728

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

SM Prime Holdings, Inc. (the Parent Company) was incorporated 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 Parent Company has 38 and 27 employees in 2001 and 2000, respectively, and supported by 1,467 and 990 employees of affiliated companies in 2001 and 2000, respectively.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of the Company are as follows:

General

The accompanying financial statements are prepared in conformity with generally accepted accounting principles in the Philippines.

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost convention.

Adoption of New Statements of Financial Accounting Standards (SFAS)

The Company adopted the following SFAS, which became effective in 2001:

- SFAS No. 1 (revised 2000), "Presentation of Financial Statements;"
- SFAS No. 13 (revised 2000), "Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies;" and,
- SFAS No. 22 (revised 2000), "Cash Flow Statements."

Changes in Presentation or Classification of Items in the Financial Statements

Following the new presentation rules under SFAS No. 1 (revised 2000), SFAS No. 13 (revised 2000) and SFAS No. 22 (revised 2000) prior year financial statements were restated to follow the format prescribed by the new standards. Changes made pertain principally to the income statement and cash flows statement presentation, inclusion of a statement of changes in stockholders' equity and additional disclosures required by the new standards.

The effect of adopting the other new standards on the financial statements is not material.

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company, First Asia Realty Development Corporation (FARDC), a 54.37%-owned subsidiary and the following wholly-owned subsidiaries: Premier Central, Inc., Consolidated Prime Dev. Corp. and Premier Southern Corp. (collectively referred to as the "Group").

All significant intercompany accounts and transactions are eliminated in the consolidation.

Cash and Cash Equivalents

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

Receivables

Receivables are stated at face value, after allowance for doubtful accounts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. When assets are sold or retired, their cost and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period the costs are incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 to 35 years
Leasehold rights	25 years
Building equipment, furniture and others	3 to 15 years

Retirement Benefit Cost

The retirement benefit cost shall be based on the percentage of number of days per every year of credit and service.

Interest Capitalization

Interest and other financing charges incurred during the construction and development period of major capital projects are capitalized as part of the cost of the assets.

Preoperating Expenses

Expenses incurred by the subsidiaries prior to the start of commercial operations and in bringing new facilities into operations (shown under "Other assets" account in the consolidated balance sheets) have been deferred and are being amortized over 10 years.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

Rent income is recognized when earned in accordance with the terms of the lease agreements. Cinema ticket sales are recognized upon receipt of cash from the movie patron.

Income Tax

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Foreign Currency-Denominated Transactions

Gains or losses arising from foreign currency-denominated transactions are generally credited or charged to current operations. Unrealized foreign exchange gains or losses arising from the restatement of foreign currency-denominated long-term loans (used for working capital purposes) are deferred (shown as part of "Other assets" account in the consolidated balance sheets) and amortized over the remaining term of the loan. The unrealized foreign exchange gains or losses arising from the restatement of foreign currency-denominated loans used to acquire property and equipment are capitalized as part of the carrying amount of the related assets to which the proceeds of the loan were used.

In December 2001, the Accounting Standards Council (ASC) issued Exposure Draft (ED) No. 37 (revised), "The Effects of Changes in Foreign Exchange Rates," which will allow the capitalization of foreign exchange differentials only under restrictive conditions effective January 1, 2005. In December 2001, the ASC issued ED No. 51, "Deferred Foreign Exchange Differences" (an amendment of ASC SFAS No. 8, "Accounting for the Effects of Changes in Foreign Exchange Rates"), which will eliminate the deferral option for foreign exchange differences effective January 1, 2003. The Company will adopt the said provisions as they become effective.

Earnings Per Share

Earnings per share are computed based on the weighted average number of issued and outstanding shares of stock during the year retroactively adjusted for stock dividends declared in the current year.

3. Cash and Cash Equivalents

This account consists of:

	2001	2000
Cash on hand and in banks	256,788,972	106,318,295
Short-term investments	7,379,657,674	10,590,327,000
	7,636,446,646	10,696,645,295

4. Receivables

This account consists of:

	2001	2000
Rental - net	905,691,746	800,520,360
Others	39,066,867	141,590,388
	944,758,613	942,110,748

5. Property and Equipment

This account consists of:

	2001	2000
Land and improvements	7,750,448,413	5,975,883,583
Buildings and improvements	19,471,284,476	17,472,051,595
Leasehold rights	647,351,967	665,801,390
Building equipment, furniture and others	3,012,765,133	2,608,708,710
	30,881,849,989	26,722,445,278
Less accumulated depreciation and amortization	4,396,211,401	3,482,564,564
	26,485,638,588	23,239,880,714
Construction in-progress and others	1,333,117,526	1,092,311,199
	27,818,756,114	24,332,191,913

Interest and foreign exchange loss capitalized to property and equipment amounted to about 314 million and 1,313 million in 2001 and 2000, respectively.

The account "Construction in-progress and others" includes the accumulated costs incurred in the construction of the Group's ongoing projects.

6. Other Assets

This account consists of:

	2001	2000
Deferred charges - net	3,883,463	310,896,471
Preoperating expenses - net	41,522,461	61,005,546
Deposits and others	159,768,187	222,220,424
	205,174,111	594,122,441

Deferred charges pertain to the unamortized foreign exchange loss arising from the restatement of foreign currency denominated long-term debt which will be fully amortized in 2002.

7. Accounts Payable and Accrued Expenses

This account consists of:

	2001	2000
Accrued expenses	541,889,543	370,921,084
Accrued interest	96,715,179	167,727,864
Accounts payable and others	292,808,944	654,998,874
	931,413,666	1,193,647,822

8. Long-term Debt and Loans Payable

The Parent Company has outstanding international notes totalling US\$61.06 million in 2001 and US\$101.06 million in 2000, payable in one lump sum on February 22, 2002 with interest fixed at US treasury rate plus certain spread determined at the time of the issuance of the notes. The Trust Deed contains covenants including, among others, those relating to encumbrance or equal arrangement in favor of any creditors with respect to the assets of the Parent Company and FARDC, except under certain circumstances.

The notes, including accrued interests thereon, were fully paid by the Parent Company to holders thereof on February 22, 2002.

The long-term debt of FARDC represents a 5-year term loan amounting to 1 billion obtained on December 26, 2000. The 5-year term loan is payable in equal quarterly installments starting March 21, 2002 up to December 26, 2005 and bears a fixed interest rate determined in accordance with the loan agreement. The loans are collateralized by a real estate mortgage on the land and commercial complex of FARDC. The loan agreements also contain certain covenants and restrictions on the part of FARDC.

The significant depreciation of the peso has increased the outstanding balances of the US dollar-denominated borrowings of the Parent Company and FARDC in terms of pesos. At December 31, 2001 and 2000, the Philippine Dealing System exchange rates were 51.690 and 49.986, respectively, to US\$1.00.

The account "Current portion of long-term debt and loans payable" in the 2001 and 2000 consolidated balance sheets includes short-term peso denominated loans of 498 million and 248 million as of December 31, 2001 and 2000, respectively, obtained by FARDC. The loans are collateralized by real estate mortgage on certain parcels of land.

9. Retained Earnings

- a. The retained earnings account is restricted for the payment of dividends to the extent of 67,016,897 in 2001 and 2000 representing the cost of shares held in treasury and the Parent Company's accumulated equity in the net earnings of investees totalling 3,647,729,608 and 2,783,627,470 in 2001 and 2000, respectively. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the investees.
- b. On March 22, 2002, the Board of Directors approved a resolution to appropriate portion of retained earnings amounting to 7 billion for capital expansion effective December 31, 2001.

10. Income Tax

The current deferred tax liabilities of 92,811,596 in 2001 and 181,460,198 in 2000, included under "Accounts payable and accrued expenses" account in the consolidated balance sheets, represent the tax effects of capitalized interest, import duties and rent, and net unrealized foreign exchange gain.

The net noncurrent deferred tax liabilities of 229,555,044 in 2001 and 199,732,805 in 2000 consist of the tax effects of capitalized interest, import duties and rent, and realized foreign exchange losses of 262,433,904 in 2001 and 237,162,236 in 2000, net of the tax effect of deferred foreign exchange loss of 32,878,860 in 2001 and 37,429,431 in 2000.

The reconciliation of the provision for income tax computed at statutory income tax rate to provision for income tax as shown in the consolidated statements of income is summarized as follows:

	2001	2000	1999
Provision for income tax at statutory income tax rate	1,391,829,493	1,295,975,171	1,284,736,965
Income tax effects of reconciling items substantially consisting of interest income already subjected to final withholding tax and income/expenses considered nontaxable/nondeductible for income tax reporting purposes	(710,346,629)	(577,566,523)	(392,999,102)
Provision for income tax at effective income tax rate	681,482,864	718,408,648	891,737,863

11. Earnings Per Share

	2001	2000	1999
Net income	3,485,866,649	3,137,845,404	2,857,217,852
Weighted average number of shares outstanding during the year	9,923,749,157	9,906,165,824	9,926,649,157
Earnings per share	0.351	0.317	0.288

12. Related Party Transactions

The Parent Company and FARDC, in the regular conduct of business, have entered into transactions with related companies principally consisting of leasing and management service agreements.

13. Operating Expenses

This account consists of:

	2001	2000	1999
Depreciation and amortization	773,098,613	731,455,967	561,073,057
Administrative and non-chargeable expenses	693,637,876	415,437,497	259,049,426
Film rentals	579,947,133	507,200,317	280,996,025
Taxes and licenses	310,759,078	291,169,149	536,997,993
Others	529,337,488	369,579,751	273,778,912
	2,886,780,188	2,314,842,681	1,911,895,413

14. Notes to Consolidated Statements of Cash Flows

Cash and other cash items included in the consolidated statements of cash flows comprise the following accounts:

	2001	2000
Cash on hand and in banks	256,788,972	106,318,295
Short-term investments	7,379,657,674	10,590,327,000
Cash and other cash items as reported	7,636,446,646	10,696,645,295
Effect of exchange rate changes on cash and other cash items	–	(46,088,870)
Cash and other cash items as restated	7,636,446,646	10,650,556,425