

# SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements  
March 31, 2005 and December 31, 2004

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended MARCH 31, 2005
2. SEC Identification Number 0000-88                      3. BIR Tax Identification No. 003-058-789
4. Exact name of registrant as specified in its charter SM PRIME HOLDINGS, INC.
5. PHILIPPINES                      6. (SEC Use Only)
- Province, Country or other jurisdiction of                      Industry Classification Code:  
incorporation or organization
7. SM Corporate Offices, Bldg. A, 1000 Bay Blvd.  
SM Central Business Park, Bay City, Pasay City                      1300  
Address of principal office                      Postal Code
8. 831-1000  
Registrant's telephone number, including area code
9. \_\_\_\_\_  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the SRC

| Title of Each Class                 | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|-------------------------------------|--|
| <b>CAPITAL STOCK, P 1 PAR VALUE</b> | <b>9,935,294,157</b>   |

11. Are any or all of these securities listed on the Philippine Stock Exchange.  
Yes []    No [  ]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 11 of the Securities Regulation Code (SRC) and SRC Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes []    No [  ]

(b) has been subject to such filing requirements for the past 90 days.

Yes []    No [  ]



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

|   | March 31,<br>2005 | December 31,<br>2004 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| <b>Current Assets</b>   |                   |                      |
| Cash and cash equivalents (Notes 3, 9 and 14)                         | P9,231,804,261    | P10,114,781,581      |
| Receivables (Notes 4, 14 and 15)                                      | 1,522,648,216     | 1,879,945,181        |
| Prepaid expenses and other current assets                             | 474,654,981       | 328,709,775          |
| Total Current Assets  | 11,229,107,458    | 12,323,436,537       |
| <b>Noncurrent Assets</b>  |                   |                      |
| Investment properties - net (Note 5)                                  | 36,801,330,294    | 35,314,859,334       |
| Investment securities - at cost (Notes 6 and 14)                      | 5,537,350,000     | 5,617,050,000        |
| Other noncurrent assets (Notes 9 and 12)                              | 988,242,416       | 893,234,403          |
| Total Noncurrent Assets   | 43,326,922,710    | 41,825,143,737       |
|   | P54,556,030,168   | P54,148,580,274      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                           |                   |                      |
| <b>Current Liabilities</b>  |                   |                      |
| Loans payable (Note 7)  | P5,303,495,000    | P5,438,985,000       |
| Accounts payable and other current liabilities (Notes 7, 8, 9 and 14) | 1,072,295,115     | 1,612,762,991        |
| Income tax payable  | 716,561,997       | 525,103,120          |
| Current portion of long-term debt (Notes 9, 14 and 16)                | 812,500,000       | 775,000,000          |
| Total Current Liabilities   | 7,904,852,112     | 8,351,851,111        |
| <b>Noncurrent Liabilities</b>   |                   |                      |
| Long-term debt - net of current portion (Notes 9, 14 and 16)          | 11,780,800,000    | 12,226,150,000       |
| Tenants' deposits and others (Note 12)                                | 2,803,546,099     | 2,803,414,123        |
| Total Noncurrent Liabilities  | 14,584,346,099    | 15,029,564,123       |
| <b>Minority Interest</b>  | 890,592,105       | 827,821,782          |
| <b>Stockholders' Equity</b>   |                   |                      |
| 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 10):  |                   |                      |
| Appropriated  | 7,000,000,000     | 7,000,000,000        |
| Unappropriated  | 11,242,642,994    | 10,005,746,400       |
| Treasury stock (Note 10)  | (101,474,705)     | (101,474,705)        |
| Total Stockholders' Equity  | 31,176,239,852    | 29,939,343,258       |
|   | P54,556,030,168   | P54,148,580,274      |

*See accompanying Notes to Consolidated Financial Statements.*

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

|  | <b>Three Months Ended March 31</b> |                |
|--|------------------------------------|----------------|
|  | <b>2005</b>                        | <b>2004</b>    |
| <b>REVENUES</b>  |                                    |                |
| Rent (Notes 4, 14 and 15)                                | <b>₱2,047,910,493</b>              | ₱1,841,451,589 |
| Cinema ticket sales                                      | <b>306,872,248</b>                 | 358,599,152    |
| Others   | <b>130,641,189</b>                 | 128,329,703    |
|  | <b>2,485,423,930</b>               | 2,328,380,444  |
| <b>OPERATING EXPENSES</b> (Notes 11, 13, 14 and 15)      | <b>1,072,231,541</b>               | 974,891,708    |
| <b>INCOME FROM OPERATIONS</b>                            | <b>1,413,192,389</b>               | 1,353,488,736  |
| <b>OTHER INCOME (CHARGES)</b>                            |                                    |                |
| Interest and dividend income (Notes 4, 6 and 14)         | <b>284,774,048</b>                 | 203,499,834    |
| Interest expense (Notes 7, 9 and 14)                     | <b>(100,867,293)</b>               | (77,756,446)   |
| Others – net   | <b>(47,030,627)</b>                | (45,595,589)   |
|  | <b>136,876,128</b>                 | 80,147,799     |
| <b>INCOME BEFORE INCOME TAX AND MINORITY INTEREST</b>    | <b>1,550,068,517</b>               | 1,433,636,535  |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 12) |                                    |                |
| Current  | <b>307,276,995</b>                 | 258,681,017    |
| Deferred   | <b>(55,469,662)</b>                | (51,013,317)   |
|  | <b>251,807,333</b>                 | 207,667,700    |
| <b>INCOME BEFORE MINORITY INTEREST</b>                   | <b>1,298,261,184</b>               | 1,225,968,835  |
| <b>MINORITY INTEREST</b>                                 | <b>61,364,590</b>                  | 68,707,451     |
| <b>NET INCOME</b> (Note 17)                              | <b>₱1,236,896,594</b>              | ₱1,157,261,384 |
| <b>Earnings Per Share</b> (Note 17)                      | <b>₱0.125</b>                      | ₱0.117         |

*See accompanying Notes to Consolidated Financial Statements.*

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

|   | <b>Three Months Ended March 31</b> |                 |
|---|------------------------------------|-----------------|
|   | <b>2005</b>                        | <b>2004</b>     |
| <b>CAPITAL STOCK</b> - ₱1 par value                 |                                    |                 |
| Authorized - 10,000,000,000 shares                  |                                    |                 |
| Issued - 9,935,294,157 shares                       | <b>₱9,935,294,157</b>              | ₱9,935,294,157  |
| <b>ADDITIONAL PAID-IN CAPITAL</b>                   | <b>3,099,777,406</b>               | 3,099,777,406   |
| <b>RETAINED EARNINGS</b> (Note 10)                  |                                    |                 |
| Appropriated for future capital expenditures        | <b>7,000,000,000</b>               | 7,000,000,000   |
| Unappropriated:                                     |                                    |                 |
| Balance at beginning of period                      | <b>10,005,746,400</b>              | 11,830,024,612  |
| Net income  | <b>1,236,896,594</b>               | 1,157,261,384   |
| Balance at end of period                            | <b>11,242,642,994</b>              | 12,987,285,996  |
|   | <b>18,242,642,994</b>              | 19,987,285,996  |
| <b>TREASURY STOCK</b> - 18,857,000 shares (Note 10) | <b>(101,474,705)</b>               | (101,474,705)   |
|   | <b>₱31,176,239,852</b>             | ₱32,920,882,854 |

*See accompanying Notes to Consolidated Financial Statements.*

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

|   | <b>Three Months Ended March 31</b> |                 |
|---|------------------------------------|-----------------|
|   | <b>2005</b>                        | <b>2004</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>     |                                    |                 |
| Income before income tax and minority interest  | <b>₱1,550,068,517</b>              | ₱1,433,636,535  |
| Adjustments for:                                |                                    |                 |
| Depreciation                                    | <b>338,101,488</b>                 | 323,167,359     |
| Interest and dividend income                    | <b>(284,774,048)</b>               | (203,499,834)   |
| Interest expense                                | <b>100,867,293</b>                 | 77,756,446      |
| Net unrealized foreign exchange losses (gains)  | <b>25,442,290</b>                  | (7,502,182)     |
| Operating income before working capital changes | <b>1,729,705,540</b>               | 1,623,558,324   |
| Decrease (increase) in:                         |                                    |                 |
| Receivables                                     | <b>299,324,078</b>                 | (58,423,972)    |
| Prepaid expenses and other current assets       | <b>(145,945,206)</b>               | (40,887,002)    |
| Increase (decrease) in:                         |                                    |                 |
| Accounts payable and other current liabilities  | <b>(663,034,568)</b>               | (586,681,851)   |
| Tenants' deposits and others                    | <b>35,625,513</b>                  | 31,368,630      |
| Net cash generated from operations              | <b>1,255,675,357</b>               | 968,934,129     |
| Income taxes paid                               | <b>(115,818,117)</b>               | (106,640,878)   |
| Net cash provided by operating activities       | <b>1,139,857,240</b>               | 862,293,251     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>     |                                    |                 |
| Additions to investment properties              | <b>(1,671,995,665)</b>             | (1,057,285,886) |
| Interest and dividends received                 | <b>231,166,936</b>                 | 173,679,321     |
| Increase in other noncurrent assets             | <b>(73,626,160)</b>                | (148,128,891)   |
| Net cash used in investing activities           | <b>(1,514,454,889)</b>             | (1,031,735,456) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>     |                                    |                 |
| Payments of:                                    |                                    |                 |
| Loans   | <b>(168,750,000)</b>               | (21,550,000)    |
| Interest  | <b>(130,877,384)</b>               | (80,186,481)    |
| Net cash used in financing activities           | <b>(299,627,384)</b>               | (101,736,481)   |
| <b>EFFECT OF EXCHANGE RATE CHANGES</b>          |                                    |                 |
| <b>ON CASH AND CASH EQUIVALENTS</b>             | <b>(208,752,287)</b>               | -               |
| <b>NET DECREASE IN CASH AND CASH</b>            |                                    |                 |
| <b>EQUIVALENTS</b>                              | <b>(882,977,320)</b>               | (271,178,686)   |
| <b>CASH AND CASH EQUIVALENTS AT</b>             |                                    |                 |
| <b>BEGINNING OF PERIOD</b>                      | <b>10,114,781,581</b>              | 10,102,373,213  |
| <b>CASH AND CASH EQUIVALENTS AT</b>             |                                    |                 |
| <b>END OF PERIOD</b>                            | <b>₱9,231,804,261</b>              | ₱9,831,194,527  |

*See accompanying Notes to Consolidated Financial Statements.*

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

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Corporate Information**

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

The Parent Company is 52.61% directly and indirectly-owned by SM Investments Corporation (SMIC), a publicly-listed Philippine corporation.

The registered office and principal place of business of the Parent Company is Building A, SM Corporate Offices, Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

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### **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis.

#### Basis of Consolidation

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

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and cease to be consolidated from the date on which control is transferred out of the Parent Company.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

#### Cash and Cash Equivalents

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

Receivables

Receivables are recognized and carried at original invoice amounts or face amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Investment Properties

Investment properties represent land and buildings, structures, equipment and improvements of the shopping malls. These are carried at cost less accumulated depreciation and any impairment in value, except for land, which are carried at cost less any impairment in value.

The initial cost of investment properties consists of 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 investment properties have been put into operation, such as repairs and maintenance, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of investment properties beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of investment properties.

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

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

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

When assets are sold or retired, their cost and accumulated depreciation and any impairment losses are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statements of income.

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

Impairment of Assets

The carrying values of investment properties and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognized in the consolidated statements of income, if any.

Investment Securities

Investment securities are carried at cost less allowance for any presumably permanent decline in value.

#### Debt Issuance Costs

Debt issuance costs (shown as part of “Other noncurrent assets” account in the consolidated balance sheets) are amortized over the terms of the related borrowings using the effective interest rate method.

#### Revenue

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

*Rent Income.* Revenue is recognized on a straight-line basis over the lease term.

*Cinema Ticket Sales, Ice Skating, Bowling and Others.* Revenue is recognized upon receipt of cash from the customer.

*Interest.* Revenue is recognized as the interest accrues.

*Dividends.* Revenue is recognized when the shareholders’ right to receive the payment is established.

#### Management Fees

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

#### Retirement Plan

The Parent Company has a funded, noncontributory defined benefit retirement plan covering all permanent employees administered by a Board of Trustees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects the periods of service rendered by employees to the date of valuation and incorporates assumptions concerning employees’ projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

#### Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

#### Foreign Currency Transactions

Foreign currency transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the balance sheet date. All differences are taken to the consolidated statements of income.

For income tax purposes, exchange gains and losses are treated as taxable income or deductible expense in the period such are realized.

#### Financial Instruments

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

#### Borrowing Costs

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

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

#### Earnings Per Share (EPS)

EPS is computed by dividing the net income for the period by the weighted average number of issued and outstanding shares of stock during the period.

#### Business Segment

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

#### Subsequent Events

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

#### New Accounting Standards Effective in 2005

New accounting standards based on IAS referred to as Philippine Accounting Standards (PAS) will become effective in 2005. The Company will adopt the following new accounting standards that are relevant to the Company effective 2005:

- PAS 19, “Employee Benefits”, will result in the change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires the Company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the balance sheet date. The Company is in the process of having its actuarial valuation updated.
- PAS 32, “Financial Instruments: Disclosure and Presentation,” which covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company’s financial instruments, whether recognized or unrecognized in the consolidated financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company’s financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form. Adoption of this standard is not expected to have a significant impact to the Company.
- PAS 39, “Financial Instruments: Recognition and Measurement,” which establishes the accounting and reporting standards for recognizing, measuring, and disclosing information about a company’s financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as “at fair value through profit and loss” and derivatives, which are subsequently to be measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in nonderivative contracts. Under the standard, every derivative instrument is recorded in the consolidated balance sheets as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualify as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders’ equity until the hedged item is recognized in earnings. A company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

Adoption of PAS 39 is expected to have operational and financial statement impact to the Company which is not presently quantifiable. Volatility in the financial statements is anticipated because of the requirement to fair value most financial instruments, including derivative financial instruments. In 2005, the impact of adopting PAS 39 will be retroactively computed, as applicable, and adjusted to January 1, 2005 retained earnings. Prior period’s consolidated financial statements, as allowed by the SEC, will not be restated.

- PAS 40, "Investment Property," which prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the consolidated statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon effectivity of PAS 40, the Company will adopt the cost model and will continue to carry its investment properties at depreciated cost less any accumulated impairment losses.

The Company will also adopt the following revised standards:

- PAS 1, "Presentation of Financial Statements," which provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in consolidated statements of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the consolidated balance sheet and consolidated statement of income.
- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," which removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error.
- PAS 10, "Events After the Balance Sheet Date," which provides a limited clarification of the accounting for dividends declared after the balance sheet date.
- PAS 17, "Leases," which provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors.
- PAS 24, "Related Party Disclosures," which provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type.
- PAS 27, "Consolidated and Separate Financial Statements," which reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements.

The Company does not expect any significant impact on the consolidated financial statements when it adopts the above revised standards in 2005, except for the additional disclosures required by the standards and the presentation of the consolidated statements of income.

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### 3. Cash and Cash Equivalents

This account consists of:

|                           | <b>March 31,<br/>2005</b> | December 31,<br>2004 |
|---------------------------|---------------------------|----------------------|
| Cash on hand and in banks | <b>₱402,876,394</b>       | ₱313,462,568         |
| Temporary investments     | <b>8,828,927,867</b>      | 9,801,319,013        |
|                           | <b>₱9,231,804,261</b>     | ₱10,114,781,581      |

Cash in banks earns interest at the respective bank deposit rates. Temporary investments are made for varying periods depending on the immediate cash requirements of the Company, and earn interest at the respective temporary investment rates (see Notes 9 and 14).

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### 4. Receivables

This account consists of:

|                             | <b>March 31,<br/>2005</b> | December 31,<br>2004 |
|-----------------------------|---------------------------|----------------------|
| Rent (see Notes 14 and 15)  | <b>₱1,113,461,222</b>     | ₱1,342,640,698       |
| Accrued interest and others | <b>409,186,994</b>        | 537,304,483          |
|                             | <b>₱1,522,648,216</b>     | ₱1,879,945,181       |

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### 5. Investment Properties

This account consists of:

| This account consists of:                | <b>March 31,<br/>2005</b> | December 31,<br>2004 |
|--|---------------------------|----------------------|
| Cost:                                    |                           |                      |
| Land and improvements                    | <b>₱9,366,856,459</b>     | ₱9,256,794,329       |
| Buildings and improvements               | <b>24,210,572,546</b>     | 24,407,865,979       |
| Building equipment, furniture and others | <b>5,400,862,771</b>      | 5,414,822,981        |
|  | <b>38,978,291,776</b>     | 39,079,483,289       |
| Accumulated depreciation                 | <b>7,771,717,516</b>      | 7,434,856,738        |
| Net book value                           | <b>31,206,574,260</b>     | 31,644,626,551       |
| Construction in progress                 | <b>5,594,756,034</b>      | 3,670,232,783        |
|  | <b>₱36,801,330,294</b>    | ₱35,314,859,334      |

Construction in progress pertains to costs incurred for the development of the buildings and structures of "Mall of Asia," "SM City San Lazaro," "SM City Molino" and "SM Valenzuela".

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**6. Investment Securities**

Investment securities consist of investments in preferred shares which bear dividend rates of 6.5% to 10.62% per annum, maturing in 2009.

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**7. Loans Payable**

Loans payable consist of peso-denominated and U.S. dollar-denominated loans obtained from banks amounting to ₱650 million and ₱4,653 million (US\$85 million) in 2005 and ₱650 million and ₱4,789 million (US\$85 million) in 2004. The loans bear interest at prevailing market rates.

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**8. Accounts Payable and Other Current Liabilities**

This account consists of:

|  | <b>March 31,<br/>2005</b> | December 31,<br>2004 |
|--|---------------------------|----------------------|
| Trade  | <b>₱316,302,359</b>       | ₱552,048,519         |
| Accrued interest (see Notes 7 and 9)                   | <b>328,744,261</b>        | 206,177,569          |
| Liability for purchased land                           | <b>217,684,759</b>        | 98,246,759           |
| Accrued taxes  | <b>55,772,009</b>         | 380,975,652          |
| Accrued operating expenses and others<br>(see Note 14) | <b>153,791,727</b>        | 375,314,492          |
|  | <b>₱1,072,295,115</b>     | ₱1,612,762,991       |

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**9. Long-term Debt**

This account consists of:

|   | <b>March 31,<br/>2005</b> | December 31,<br>2004 |
|---|---------------------------|----------------------|
| Parent Company:                                     |                           |                      |
| U.S. dollar-denominated five-period syndicated loan | <b>₱8,212,050,000</b>     | ₱8,451,150,000       |
| Peso-denominated loans:                             |                           |                      |
| Five-period syndicated loan                         | <b>1,593,750,000</b>      | 1,700,000,000        |
| Other bank loans                                    | <b>1,000,000,000</b>      | 1,000,000,000        |
| Subsidiaries:                                       |                           |                      |
| Peso-denominated five-period syndicated loans       | <b>1,787,500,000</b>      | 1,850,000,000        |
|   | <b>12,593,300,000</b>     | 13,001,150,000       |
| Less current portion                                | <b>812,500,000</b>        | 775,000,000          |
|   | <b>₱11,780,800,000</b>    | ₱12,226,150,000      |

### Parent Company

#### U.S. dollar-denominated Five-Period Syndicated Loan

The US\$150.0 million unsecured loan was obtained on October 18, 2004 and will mature on October 18, 2009. The loan is a five-period bullet term loan which carries interest rate based on a certain percentage plus London Inter-Bank Offered Rate (see Note 16).

#### Peso-denominated Five-Period Syndicated Loan

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

#### Other Bank Loans

This represents a two-period and five-period unsecured loans obtained on December 1, 2004 amounting to ₱466 million and ₱534 million, respectively. The loans bear fixed interest rates of 10.87% and 12.54%, respectively, and will mature on December 1, 2006 and December 1, 2009, respectively.

### Subsidiaries

#### Peso-denominated Five-Period Syndicated Loans

In 2004, CPDC and PSC obtained a five-period term loan amounting to ₱1,600 million to finance the construction of its shopping malls. The five-period term loan is payable in equal quarterly installments of ₱100 million starting in October 2005 up to July 2009 and bears a fixed interest rate of 9.66% payable quarterly in arrears. The loan is guaranteed by the Parent Company.

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

Certain portion of temporary investments amounting to ₱1,262 million is pledged to secure the loans in compliance with the requirements of the Bangko Sentral ng Pilipinas (BSP). In accordance with the loan agreement, the Parent Company has the option to substitute the pledged temporary investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 14).

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 March 31, 2005, the Company is in compliance with the terms of its loan covenants.

#### Debt Issuance Costs

Unamortized debt issuance costs (shown as part of "Other noncurrent assets" account in the consolidated balance sheets) amounted to ₱205 million as of March 31, 2005.

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## 10. Retained Earnings

The retained earnings account is restricted for the payment of dividends to the extent of ₱101 million, representing the cost of shares held in treasury and the Parent Company's accumulated equity in the net earnings of subsidiaries totaling ₱5,307 million and ₱5,166 million as of March 31, 2005 and December 31, 2004, respectively. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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## 11. Operating Expenses

This account consists of:

|  | <b>March 31,<br/>2005</b> | March 31,<br>2004 |
|--|---------------------------|-------------------|
| Administrative (see Notes 13, 14 and 15) | <b>₱339,176,925</b>       | ₱251,505,748      |
| Depreciation                             | <b>338,101,488</b>        | 323,167,359       |
| Film rentals                             | <b>158,288,375</b>        | 188,062,517       |
| Business taxes and licenses              | <b>129,261,194</b>        | 118,256,596       |
| Others (see Note 14)                     | <b>107,403,559</b>        | 93,899,488        |
|  | <b>₱1,072,231,541</b>     | ₱974,891,708      |

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## 12. Income Tax

The components of the Company's deferred income tax assets and liabilities in the consolidated balance sheets follow:

|  | <b>March 31,<br/>2005</b> | December 31,<br>2004 |
|--|---------------------------|----------------------|
| Deferred tax assets (shown as part of "Other noncurrent assets" account)           | <b>₱77,159,622</b>        | ₱57,183,499          |
| Deferred tax liabilities (shown as part of "Tenants' deposits and others" account) | <b>₱86,267,924</b>        | ₱121,761,462         |

The deferred tax assets consist of the tax effects of unrealized foreign exchange losses and accrued expenses.

The deferred income tax liabilities consist of the tax effects of undepreciated capitalized interest and unrealized foreign exchange gains.

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

|  | <b>March 31,<br/>2005</b> | March 31,<br>2004 |
|--|---------------------------|-------------------|
| Provision for income tax at statutory tax rate   | <b>₱496,021,925</b>       | ₱458,763,691      |
| Income tax effects of reconciling items substantially consisting of interest income subjected to final tax and income/expenses considered nontaxable/nondeductible for income tax reporting purposes | <b>(244,214,592)</b>      | (251,096,091)     |
| Provision for income tax at effective income tax rate  | <b>₱251,807,333</b>       | ₱207,667,600      |

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### 13. Retirement Plan

The Parent Company has a funded, noncontributory defined benefit retirement plan covering all of its regular full-time employees. As of December 1, 2003, the date of latest actuarial valuation, the actuarial liability amounted to ₱2 million. The annual normal cost and past service cost amounted to ₱556,657 and ₱357,402, respectively. The principal actuarial assumptions used to determine the pension benefits include salary increase of 10% a period and a return on plan assets of 12% a period. Actuarial valuations are made at least once every three periods.

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### 14. Related Party Transactions

Transactions with related companies consists mainly of rent income, management fees and cash placements. Transactions with related parties have been entered into at terms no less favorable than could have been obtained if the transactions were entered into with unrelated parties.

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### 15. Lease Agreements

The Company's lease agreements with its tenants are generally granted for a term of one period, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five periods, renewable on an annual basis thereafter. Tenants pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales.

The Company also leases certain parcels of land where some of its malls are constructed. The terms of the lease shall be for a period ranging from 25 to 50 periods, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a

certain percentage of the Company's gross rental income or a certain fixed amount, whichever is higher.

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## 16. Financial Instruments

### Foreign Currency Swaps and Interest Rate Swaps

In 2004, the Parent Company entered into foreign currency swap agreements with aggregate notional amount of US\$70 million and weighted average swap rate of ₱56.31 to US\$1. Under these agreements, the Parent Company effectively swaps the principal amount and interest of these US dollar-denominated loans into Philippine peso-denominated loans with payments up to October 2009.

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

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## 17. Basic EPS Computation

Basic EPS is computed as follows:

|  | <b>March 31,<br/>2005</b> | March 31,<br>2004 |
|--|---------------------------|-------------------|
| Net income (a)   | <b>₱1,236,896,594</b>     | ₱1,157,261,384    |
| Common shares issued   | <b>9,935,294,157</b>      | 9,935,294,157     |
| Less weighted average number of<br>treasury shares acquired during<br>the period | <b>18,247,667</b>         | 18,247,667        |
| Weighted average number of<br>common shares outstanding (b)                      | <b>9,917,046,490</b>      | 9,917,046,490     |
| Earnings per share (a/b)   | <b>₱0.125</b>             | ₱0.117            |

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## 18. Other Matter

At the regular meeting of the Board of Directors (BOD) held on April 25, 2005, the BOD declared a 23.3% cash dividend based on par value or ₱0.233 per share in favor of stockholders of record as of May 25, 2005 payable on or before June 20, 2005.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

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**SM PRIME posts P1.24 billion net income in Q1**

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

|                                      | <b>1st Quarter 2005</b> |               |                 |
|--------------------------------------|-------------------------|---------------|-----------------|
|                                      | <b>2005</b>             | <b>2004</b>   | <b>% Change</b> |
| <b>Profit &amp; Loss Data</b>        |                         |               |                 |
| Revenues                             | 2,485                   | 2,328         | 7%              |
| Operating Expenses                   | 1,072                   | 975           | 10%             |
| Operating Income                     | 1,413                   | 1,354         | 4%              |
| Net Income                           | 1,237                   | 1,158         | 7%              |
| Cash flows from operations           | 1,140                   | 862           | 32%             |
|                                      |                         |               |                 |
|                                      | <b>Mar 31</b>           | <b>Dec 31</b> |                 |
|                                      | <b>2005</b>             | <b>2004</b>   | <b>% Change</b> |
| <b>Balance Sheet Data</b>            |                         |               |                 |
| Total Assets                         | 54,556                  | 54,149        | 1%              |
| Total Debt                           | 17,897                  | 18,440        | -3%             |
| Total Stockholders' Equity           | 31,176                  | 29,939        | 4%              |
| <b>Financial Ratios</b>              |                         |               |                 |
| Fixed Assets to Total Assets         | 0.67                    | 0.65          |                 |
| Stockholders' Equity to Total Assets | 0.57                    | 0.55          |                 |
| Current Ratio                        | 1.42                    | 1.48          |                 |
| Debt to Equity                       | 0.57                    | 0.62          |                 |
|                                      |                         |               |                 |
|                                      | <b>Mar 31</b>           |               |                 |
| (annualized)                         | <b>2005</b>             | <b>2004</b>   |                 |
| Return on Equity                     | 0.16                    | 0.14          |                 |
| Debt to EBITDA                       | 3.93                    | 1.89          |                 |
| EBITDA to Interest Expense           | 11.30                   | 11.09         |                 |
| Operating Income to Revenues         | 0.57                    | 0.58          |                 |
| Net Income to Revenues               | 0.50                    | 0.50          |                 |

SM Prime Holdings, Inc., the country's leading shopping mall developer and operator, posts P1.24 billion net income for the three months ended March 31, 2005—a 7% increase from last year's same period of P1.16 billion. Gross revenues likewise increased 7% to P2.49 billion in the first quarter of

2005 from P2.33 billion in the first quarter of 2004. Rental revenues remain the largest portion, with an 11% growth to P2.05 billion from last year's P1.84 billion. This is largely due to rentals from two additional SM Supermalls opened in 2004, namely, SM City Dasmariñas and SM City Batangas.

SM City Dasmariñas and SM City Batangas opened with a gross floor area of 79,792 and 80,350 square meters, respectively. Currently, both malls have an average occupancy level of 90%.

Cinema ticket sales declined 14% due to more films shown for the first quarter of 2004 compared to the same period in 2005 and the on-going renovation of cinemas in North Edsa, Megamall, Cebu, Southmall and Centerpoint. In the first quarter of 2005, major films shown were "Constantine," "Kung Fu Hustle," "Elektra," "Meet the Fockers," and "Let the Love Begin." In 2004, major blockbuster films shown for the same period were "Lord of the Rings 3," "Last Samurai," "Kill Bill," "Milan," "Bridal Shower" and "Otso Otso." Other factors could be the continued proliferation of film piracy and increased competition.

Operating expenses also grew 10% due to the opening of SM Dasmariñas and SM Batangas. Depreciation expense for these new malls also contributed to this increase. Income from operations, however, remains favorable at P1.41 billion from last year's P1.35 billion. Other income increased by 71% despite additional short and long-term loans due to capitalization of related interest expense to ongoing mall projects and dividend income from investment securities.

The financial condition of SM Prime Holdings, Inc. remains strong with a cash balance of P9.23 billion as of March 31, 2005. On the other hand, receivables decreased 27% due to subsequent collections of trade receivables and accrued interest and dividend income.

The increase in prepaid expenses and other current assets of 44% is mainly due to accumulated input VAT of subsidiaries. These will be applied in 2005.

The increase in investment properties of 4% is mainly due to construction activities related to Mall of Asia, SM City San Lazaro, SM Valenzuela and SM City Molino which are expected to open within 2005. The increase in other noncurrent assets of 11% is due to deposits paid for properties in San Pablo, Laguna and Taytay, Rizal.

Loans payable remains steady at P5.3 billion. There were no new long-term loans acquired during the period. The decrease is mainly due to principal repayments and foreign exchange restatements.

Accounts payable and accrued expenses decreased 34% due to payments to contractors.

The increase in minority interest of 8% is due to share in net income of FARDC.

The Company's performance indicators are measured in terms of the following: (1) Ratio of fixed assets to total assets which measures the ratio of property and equipment to total assets; (2) current ratio which measures the ratio of total current assets to total current liabilities; (3) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) debt to equity which measures the ratio of interest bearing liabilities to stockholders' equity; (5) earnings before interest, income taxes, depreciation and amortization (EBITDA) level or cash flows from operations; (6) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (7) EBITDA to interest expense which measures the ratio of EBITDA to gross interest expense; (8) operating income to revenues which basically measures the gross profit ratio; and, (9) net income to

revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key performance indicators of the Company.

The balance sheet remains robust with total fixed assets accounting for 67% of total assets as of March 31, 2005 and 65% as of December 31, 2004. The Company's liquidity position remains strong with current ratio at 1.42:1 as of March 31, 2005 as compared to 1.48:1 as of December 31, 2004.

In terms of profitability, ROE increased at 16% for the quarter ended March 31, 2005 compared to 14% in the same period 2004 mainly due to the special dividend declaration in December 2004.

Interest-bearing debt to equity decreased 0.57:1 as of March 31, 2005 as compared with 0.62:1 as of December 31, 2004 as a result of principal repayments.

EBITDA increased 32% to P1.14 billion for the quarter ended March 31, 2005 from P862 million in the same quarter 2004. Debt to EBITDA, likewise, increased 3.93:1 from 1.89:1 last year due to additional loans obtained. EBITDA to interest expense, however, is almost steady from 11.1:1 for the quarter ended March 31, 2004 to 11.3:1 in March 31, 2005 due to capitalization of interest expense.

Operating income to revenues slightly declined for the quarter ended March 31, 2005 at 57% as compared to same period last year of 58% due to increase in fixed overhead expenses. On the other hand, net income to revenues is steady at 50% for the three months ended March 31, 2005 and 2004.

SM Prime Holdings, Inc. has set aside P5 billion for capital expenditures for 2005. Construction is now ongoing full-blast on the SM Mall of Asia, set to be the country's premier shopping destination and tourist attraction, revitalizing the Roxas Boulevard Bay Area. The 448,000 square meter SM Mall of Asia is set to open in the last quarter of 2005. Also set to open in 2005 are SM City San Lazaro (Manila), SM Valenzuela and SM City Molino (Cavite). Total gross floor area will increase to 3.2 million square meters by end 2005 from 2.5 million square meters as of December 2004.

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

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

**SM PRIME HOLDINGS, INC.**  
**AGING OF RENT RECEIVABLE**  
**AS OF MARCH 31, 2005**

|                   | <u>BALANCE</u>       | <u>CURRENT</u>       | <u>1 - 3 MONTHS</u> |
|-------------------|----------------------|----------------------|---------------------|
| SM MEGAMALL       | 178,901,417          | 172,639,867          | 6,261,550           |
| SM NORTH EDSA     | 127,367,362          | 122,909,504          | 4,457,858           |
| SM SOUTHMALL      | 87,810,177           | 84,736,821           | 3,073,356           |
| SM FAIRVIEW       | 83,632,454           | 80,705,318           | 2,927,136           |
| SM BACOR          | 69,173,450           | 66,752,379           | 2,421,071           |
| SM MANILA         | 70,544,638           | 68,075,576           | 2,469,062           |
| SM CEBU           | 64,413,212           | 62,158,750           | 2,254,462           |
| SM PAMPANGA       | 52,327,163           | 50,495,712           | 1,831,451           |
| SM BICUTAN        | 46,294,433           | 44,674,128           | 1,620,305           |
| SM CENTERPOINT    | 45,379,288           | 43,791,013           | 1,588,275           |
| SM ILOILO         | 40,849,800           | 39,420,057           | 1,429,743           |
| SM DASMARINAS     | 37,362,535           | 36,054,846           | 1,307,689           |
| SM MARILAO        | 34,624,093           | 33,412,250           | 1,211,843           |
| SM DAVAO          | 34,623,148           | 33,411,338           | 1,211,810           |
| SM BATANGAS       | 32,342,012           | 31,210,042           | 1,131,970           |
| SM BAGUIO         | 32,326,365           | 31,194,942           | 1,131,423           |
| SM SUCAT          | 28,836,952           | 27,827,659           | 1,009,293           |
| SM LUCENA         | 26,189,341           | 25,272,714           | 916,627             |
| SM CAGAYAN DE ORO | 20,463,382           | 19,747,164           | 716,218             |
|                   | <u>1,113,461,222</u> | <u>1,074,490,079</u> | <u>38,971,143</u>   |

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

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

PRINCIPAL FINANCIAL/ACCOUNTING OFFICER:

\_\_\_\_\_  
**JEFFREY C. LIM**  
**VP – Finance & Administration**

**Date:** \_\_\_\_\_