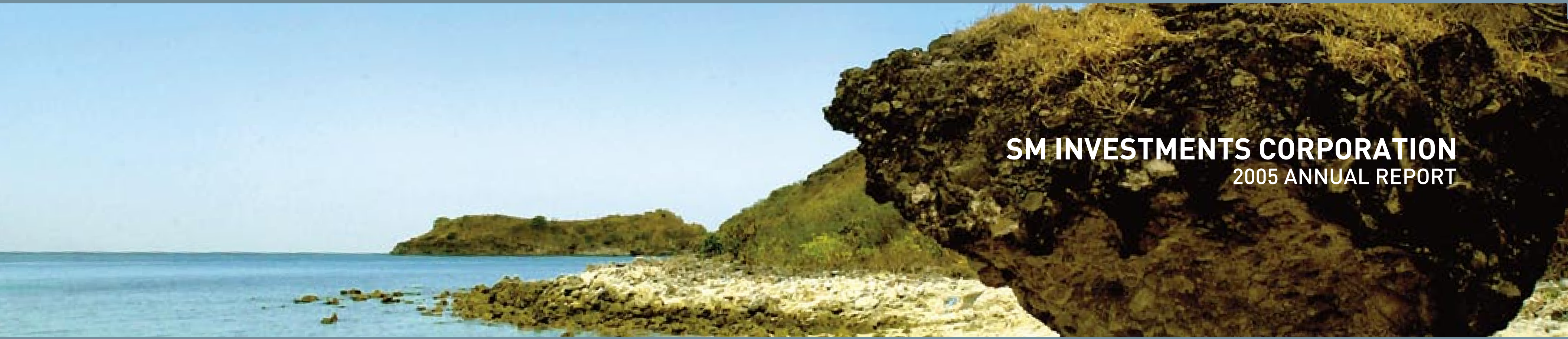

SM INVESTMENTS CORPORATION
2005 ANNUAL REPORT

Vision • Innovation • Value

Vision

SMIC attains growth in new initiatives through thought leadership, risk management, and a thorough understanding of its market and business environment.

Innovation

SMIC maintains growth in its ongoing endeavors through strategic differentiation, operational agility, and prudent incorporation of advanced technologies and methodologies.

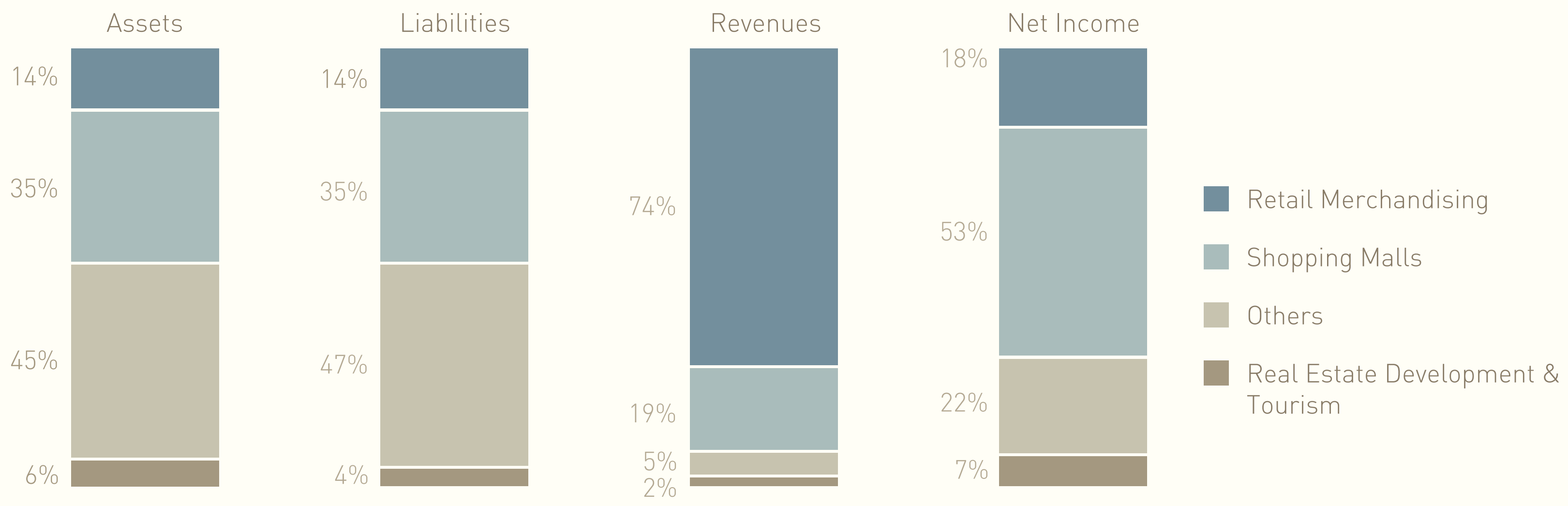
Value

SMIC sustains growth into the future through financial discretion, methodical expansion, and a relationship of responsibility and integrity toward its stakeholders.

This is SM Investments Corporation.

2005 Consolidated Financial Highlights

	31 December 2005	31 March 2005 (as restated)	% Change
Revenues	**53,981,706,757**	50,156,122,713	8 %
Net Income	**7,125,057,651**	5,764,086,098	24 %
Total Assets	**169,076,378,936**	154,563,859,593	9 %
Total Borrowing - Net	**36,721,992,635**	39,030,918,876	-6 %
Stockholders' Equity	**101,058,841,718**	85,982,363,493	17%
Earnings Per Share	**13.44**	14.12	
Financial Ratios:			
Current	**1.10:1**	2.02:1	
Debt-to-equity	**32:68**	38:62	



"We have continued our efforts to increase both synergy and stock value across the board—planning and implementing new initiatives, improving on existing properties, and adding a number of new, high-potential investments to our fold."

Fellow Stockholders,

The Vision to identify and create opportunities for growth; the Innovation to make each project bigger, bolder, better; and the commitment to deliver the best possible Value for our stakeholders—these are the attributes that drive SM Investments Corporation.

Exceeding targets set for the year, your Company's net income grew by a substantial 24% by year-end 2005, up to ₱7.1 billion from ₱5.8 billion previously. Revenues increased 7.6%, up to ₱54.0 billion from ₱50.2 billion. Consolidated assets improved by 9%, totaling ₱169.1 billion from ₱154.6 billion; while liabilities held comparatively steady at ₱68.0 billion.

Our well-received March 2005 Initial Public Offering—the largest yet in Philippine Stock Exchange history—was recognized as Best IPO of the year by Finance Asia magazine. Notwithstanding, we immediately followed this up with international road shows in June, September, and October, exercising due diligence to keep investors updated on our operational and financial performance. In that relatively short period of time, we managed to provide immediate dividends for our shareholders.

This satisfying outcome validated our strategy of concentrating on businesses that provide necessary goods and services to the Filipino public. Accordingly, we have continued our efforts to increase both synergy and stock value across the board—planning and implementing new initiatives, improving on existing properties, and adding a number of new, high-potential investments to our fold.

2005 was an especially high-profile year for SMIC, with major developments making headlines in all four of our primary business areas. We maintained market leadership in retail merchandising and shopping malls through well-considered expansion and acquisition. Several of our property development projects were completed this year; and we broke ground on several more, maximizing the ongoing uptrend in local real estate development and tourism.

It was a positive year for the Philippine economy as well, with economic indicators showing continued good growth prospects for national business. All of these developments sustain our confidence moving forward, as does the consistent reliability of our established key strengths: a solid financial position, nationwide brand equity, hands-on management, and over half a century's worth of industry expertise. We would also like to express our appreciation for what we count as our fifth strength: you, our shareholders.

We thank you for your constant trust and confidence, and assure you that your Company will progressively grow and evolve, anticipating and meeting the needs of our market and our investors. With your support, SM Investments Corporation will continue to lead the SM Group and the industries in which we operate with a steadfast dedication to Vision, Innovation, and Value.

Henry Sy, Sr.
Chairman

Teresita T. Sy
Vice-Chairman

Henry Sy, Jr.
Vice-Chairman

President's Report

Vision

SM Investments Corporation continued to guide the interests of the SM Group of Companies in 2005 with an eye toward synergy and magnitude—developing the individual and cohesive strengths of its businesses while working to achieve signal accomplishments in retail merchandising, shopping malls, banking and financial services, and real estate development and tourism.

Surpassing its projected financial targets for the year, the company earned 74% of consolidated revenues from retail sales, its main growth driver. Another 19% was derived from shopping mall rental revenues. The shopping malls segment constituted 35% of total assets, with retail merchandising contributing 14%. Interest income grew by 24% to ₱2.7 billion from ₱2.1 billion in the previous year, while interest expense decreased by 25% to ₱2.4 billion.

It is the company's vision to progressively improve the contributions from financial services and property development through aggressive action in these areas, while continuing to set the pace both financially and operationally in the retail and shopping malls sectors.

Innovation

2005 saw the opening of two new Department Stores in SM San Lazaro and SM Sucat; and in February 2006, SM Sta.Rosa was opened, driving the total number of branches up to 26 across the country. Completion of large-scale renovations to the Makati and Delgado branches of the SM Department Store were also made.

SMIC also incorporated grocery, fresh foods, and discount merchandising into its portfolio this year with the approved acquisition of the SM Supermarkets and SM Hypermarkets. Both are recognized leaders in their fields of the retail industry; and their inclusion under SMIC significantly expands the retail merchandising group's network reach and customer draw, while enhancing synergy within the Group.

In the shopping malls industry, SM Prime Holdings, Inc. fulfilled its commitment, opening four new Supermalls since the last stockholders' meeting. In order of opening, these were SM City San Lazaro, SM Supercenter Valenzuela, SM Supercenter Molino, and SM City Sta. Rosa. This expansion firmly extends SM Prime's foothold in the provinces, reaffirming its industry leadership.

Furthermore, SM Prime's forthcoming accomplishment is the opening of the SM Mall of Asia, the largest complex of its kind in the nation. The SM Mall of Asia, in particular, serves to broaden and solidify SM Prime Holdings, Inc.'s role as the pacesetter among shopping mall developers, owners, and operators. SM now has 23 Supermalls throughout the most thriving and most promising areas of Luzon, Visayas, and Mindanao.

SMIC mainstay Banco de Oro was ranked among the Philippines's top five banks last year, and acquired the 66-strong branch network of United Overseas Bank. ChinaBank celebrated its 85th anniversary with its fourth straight year of record income and the launch of its state-of-the-art online banking center.

In real estate development and tourism, SM Development Corporation continued its strategy of guaranteeing market interest by building close by the SM Supermalls. SMDC launched the Mezza Residences this year—across the street from SM City Sta. Mesa—and completed phase one of Chateau Elysée, located five minutes from SM City Bicutan. Phase Two of Chateau Elysée was also commenced in 2005. Within the exclusive and private Tagaytay Highlands resort, Highlands Prime, Inc. began work on The Woodridge Park and The Horizon, and sold all units in its now-completed maiden project, The Woodridge.

The historic Taal Vista Hotel effectively applied an aggressive marketing plan to publicize its recent renovation and continued evolution of new facilities and attractions. In the same general vicinity, a team of top-ranked international consultants was assembled to develop a comprehensive masterplan for Hamilo Coast in Nasugbu, Batangas. This masterplan is now being implemented to turn the 57 million square meter coastline property into a prime resort and residential beachfront destination, just outside the capital city of Manila.

Construction of new facilities was likewise begun within the SM Central Business Park, a 60-hectare mixed-use site that integrates technologically advanced business facilities with recreational and residential components. Along with the SM Mall of Asia and the preexisting SM Corporate Offices, the Park will be home to OneE-ComCenter. This fully-wired e-commerce building, with 98,694 square meters gross floor area, is specifically designed for call centers and other outsourcing companies and will be completed in 2007. SMIC also broke ground in March 2006 on the Maitrade Convention Center, the country's first privately-run convention and exhibition venue with a gross floor area of 42,500 square meters—yet another strategic component of the SM Central Business Park.

Value

SMIC had the privilege of receiving a number of awards and citations over the course of the year. These included Retail Asia Pacific's Top Philippine Retailer award for the SM Department Stores; The Asset magazine's Best in Corporate Governance for SM Prime Holdings, Inc.; AsiaMoney magazine's Best Managed Company for Banco de Oro; and the Department of Tourism's first-class rating for Taal Vista Hotel. The holding company itself also garnered official recognition in the form of the Best IPO Award from Finance Asia magazine.

SMIC's financial position remains formidable, with continuous rapid growth in revenues, income, and assets providing ample liquidity to deliver dividends immediately after its much-discussed IPO. Further to this, a ₱5 billion notes facility agreement was signed with a consortium of financial institutions in October of last year. SM's sterling credit rating allowed it to avail of long-term funds at exceptional rates, maximizing its credit potential to enable still more ambitious projects in the next several years.

SMIC's financial position remains formidable, with continuous rapid growth in revenues, income, and assets providing ample liquidity to deliver dividends immediately after its much-discussed IPO.

SM Investments Corporation aims to sustain and further develop its market leadership in the retail and shopping malls sectors, while directing the rapid growth of its banking and financial services, and realizing the tremendous potential of its real estate and tourism arm. Simultaneously, the company will remain operationally flexible, so as to adapt to the needs of its various markets. With the promise of a burgeoning local and global economy, SMIC's rigorous vision is clearly set; and the implementation—for 2006 and beyond—is well underway.

Harley T. Sy
President

VISION

SMIC's 50-year history of accomplishment has been fueled by its ability to envision dynamic possibilities in difficult times, developing big results from small beginnings. From a simple shoe store opened in 1945, SM has grown into one of the largest and most widely-known business entities in the country. SMIC continually strives to validate its international recognition and public trust, counting each shareholder as a vital element in its constant pursuit of its vision.

Cash Register used in the first ShoeMart shoe store in Carriedo, Manila. Circa 1958.

SM Investments Corporation
In Review

For decades, SM Investments Corporation has held to its vision of comprehensively meeting the needs of its target markets. This applies not only to the variety of goods and services the company provides, but also to the underlying value it instills and cultivates in all its endeavors, through strategic innovation.

SMIC's retail and merchandising arm, for example, is synonymous to value for money, while SM Prime Holdings, Inc. was the country's pioneer and is still the leader in combining one-stop shopping, dining, entertainment, and leisure under one roof. The company further serves its stakeholders by leveraging the high growth prospects of its banking and financial services, as well as the vast potential in real estate development and tourism, which has been determined as the next frontier for the Philippine economy.

In certain ways, all of these distinctions apply to each of SMIC's businesses. Likewise, each company has acquired specific strengths in its particular area—leading to increased synergy and progressive growth in operational agility, financial discretion, and market comprehension throughout the SM Group.

COMPANY	KEY ACTIVITIES	MARKET POSITION	HIGHLIGHTS of 2005	STRATEGIC INITIATIVES
Retail Merchandising				
SM Department Stores	Retailing via 26 department stores, as well as complementary retail affiliates. Some of these focus on the home, toy, stationery, and infants' sections of the department stores.	The country's leading department store, cornering more than half of the market	• Increased total revenue to ₱39.8 billion from ₱36.7 billion. • Increased net retail sales area to 292,229 square meters. • Recognized as Top Philippine Retailer at the Retail Asia Pacific Top 500 Awards in Singapore	• Retain focus on serving the mass market—which accounts for approximately 70% of the population—with proven expertise at delivering convenience and value for money • Sustain market leadership by constantly introducing new concepts suitable for the target audience • Maintain position at the forefront of retail technology • Provide value for money through the wide variety of quality merchandise offered
SM Supermarkets	Nationwide supermarket chain offering culinary, household, and related goods with an emphasis on quality, convenience, and cost; with 25 branches	The country's leading supermarket chain	• Achieved net retail sales of ₱27.15 billion • Increased net income by 56%, up to ₱1 billion from ₱653 million • Introduced a new merchandising concepts, such customized assembly of recipe ingredients, in order to better serve customer preferences	• Maintain market leadership by combining wet market prices with supermarket convenience • Expand and develop new concepts in the fresh section through continuous new product and service introductions • Continue to improve sales and customer retention through market-targeted promotions • Increase market share through aggressive expansion in branch network
SM Hypermarket	Fast-growing hypermarket chain, offering a targeted balance of wet market, grocery, general merchandise, and discount retailing	A leading hypermarket chain, realizing rapid growth through the SM Group's wide reach as well as synergy with its subsidiaries, particularly the SM Supermalls	• Increased revenues by 23%, up to ₱5.8 billion in less than five years of operation • Laid out plans for aggressive branch expansion in 2006	• Aggressive expansion with approximately five new stores in 2006, effectively doubling branch network • Further develop and continue to leverage SMIC's expertise at delivering value for money and one-stop shopping convenience for the Filipino family

COMPANY	KEY ACTIVITIES	MARKET POSITION	HIGHLIGHTS of 2005	STRATEGIC INITIATIVES
Shopping Malls				
SM Prime Holdings, Inc.	Shopping mall development and operations with 23 operational supermalls	A leading shopping mall developer and owner, with an average daily traffic count of 1.7 million shoppers	• Increased net income by 8%, up to ₱4.9 billion from ₱4.6 billion • Opened three new shopping malls: SM City San Lazaro, SM Supercenter Molino, and SM Supercenter Valenzuela • Adopted a dividend policy declaring an annual dividend and payout ratio of 50% of the prior year's net income	• Continue to expand activities in key provincial cities, extending its network and reach to further consolidate SM's contiguous presence throughout the archipelago • Develop approximately four to five shopping malls annually, for the next three years, utilizing 118-hectare land bank in 14 prime locations • Maintain market leadership and further improve and renovate existing malls to better serve market
Banking and Financial Services				
Banco de Oro Universal Bank	Full service Universal Bank with 220 branches and 399 ATMs	• Ranked among the country's top five banks in terms of resources • Lowest non-performing loan and asset ratios in the country • The country's third largest bank in terms of trust assets of ₱111.8 billion • Top ten ranking for its subsidiaries: BDO Insurance and BDO Capital & Investment Corporation	• Increased net income by 29% to ₱2.5 billion • Became the first local bank to float Long Term Negotiable Certificates of Deposit • Became the first local bank to issue the MasterCard electronic ATM card • Acquired the 66-branch network of United Overseas Bank Philippines	• Remain a leading provider of financial services in chosen markets, capitalizing on the goodwill and distribution network of the SM Group • Increase shareholder value by producing consistent and sustainable profitability • Continue to improve and strengthen corporate governance structure to address shareholder expectations

COMPANY	KEY ACTIVITIES	MARKET POSITION	HIGHLIGHTS of 2005	STRATEGIC INITIATIVES
China Banking Corporation CHINABANK Since 1920	Full service Universal Bank with 141 branches and 204 ATMs	• The country's seventh largest commercial bank, in terms of equity • The country's 11th largest commercial bank in terms of assets • One of the most profitable banks in the industry in terms of ROE and ROA	• Achieved fourth straight year of record income, at ₱3 billion • Maintained industry-leading position in return on average stockholders' equity at 15.18%, and return on assets at 2.43% • Maintained industry-best capital adequacy level at 28.17% • Achieved record growth in low-cost deposits of ₱3.8 billion	• Expand and diversify revenue sources through growth in loan portfolio and investment outlets • Expand branch network and maximize leverage of distribution channels through a multi-channel approach • Enhance total customer relationship management and customer service focus
Equitable-PCI Bank Equitable PCI BANK	Full-service Universal Bank with 444 branches and over 500 ATMs	• The country's third largest bank, in terms Resouces and Loans • The country's fourth largest bank, in terms of Deposits • The industry's second lowest Non-Performing Loan ratio, at 4.7%	• Marked its 55th year, in 2005 • Successfully raised US$100 Million in Senior Notes, in the international capital markets • Sold an additional PhP5.3 Billion in Non-Performing Loans, effectively lowering ratio to 4.7%	• Continuous growth and improvement across all business segments • Leverage on strong presence in consumer banking, to increase volumes and improve margins

COMPANY	KEY ACTIVITIES	MARKET POSITION	HIGHLIGHTS of 2005	STRATEGIC INITIATIVES
Real Estate Development and Tourism				
SM Development Corporation	Residential property development focusing on premium middle market	Fast-growing residential property developer, with strategic alliances within the SM Group	• Completed phase one of Chateau Elysée and progressed to final construction stage for phase two • Launched the Mezza Residences	• Develop opportunities in residential property development by leveraging the SM Group's stability, financial depth, and land bank to ensure project completion • Utilize synergies with the SM Group to develop well-rounded amenities within the properties, such as retail and banking spaces for residents
Highlands Prime, Inc.	Exclusive mountainside leisure property development	Leading residential property developer within the exclusive Tagaytay Highlands resort	• Increased net income by 37%, up to ₱173 million from ₱126 million • Broke ground on The Horizon, scheduled for completion by midyear 2006 • Laid out final plans for The Woodridge Park	• Continue to develop exclusive leisure properties that underscore the company's stalwart reputation and brand equity, including a log cabin-inspired houses adjacent to the Woodridge Park development, and subdivision lots, all within the Tagaytay Highlands
Taal Vista Hotel	Premier hotel operations	• The only Four Star- rated hotel in Tagaytay City - offers spectacular panoramic views of Taal Lake and Volcano, a popular destination only 1½ hours from Metro Manila • Complete business and recreational facilities	• Launched the Ylang-Ylang Spa, an upscale concept utilizing all-natural techniques and indigenous organic ingredients • Completed new recreational facilities, including a gym, game room, and kiddie corner	• Continuous expansion of facilities and amenities, with the goal of growing current number of 128 rooms to 250 • Extensively promote the hotel as a top choice venue for business and social functions • Consolidate position as the destination of choice for adventure tourists, leveraging on proximity to Taal Volcano

COMPANY	KEY ACTIVITIES	MARKET POSITION	HIGHLIGHTS of 2005	STRATEGIC INITIATIVES
Hamilo Coast	World-class coastal leisure property development	• Self-contained beach resort, sports, residential, and eco-park development located close to Metro Manila • Characterized by 32 kilometers of coastline, pristine water, and virgin forest, encompassing a total of 5,700 hectares	• Assembled a team of international consultants to finalize comprehensive masterplan for the 1,400 hectare first phase development	• Develop a coastal resort and destination with a complete mix of facilities and amenities catering to both the local and international leisure market • Allocate scenic areas for residential development supported by community and institutional utilities • Utilize the advanced, cohesive infrastructure designed to facilitate implementation of world-class utilities and attractions
SM Central Business Park	Development and transformation of the Central Business Park into a major commercial, financial, residential, entertainment, and tourism district, through sustained capital investment in buildings and infrastructure	Most significant contiguous business district in Metro Manila at the heart of the Bay Area, along an expansive waterfront esplanade comprising an integrated mix of land and facilities	• Completed infrastructure development of CBP and the construction of the SM Mall of Asia • Finished design development of OneE-ComCenter and Maitrade Expo & Convention Center • Allocated 13,000 square meters for a second contact center facility • Negotiated terms for the development of sites for hotels and other uses with third parties	• Accelerate creation of critical mass public interest by fast-tracking office building development, and co-developing sites for residential, hotel, entertainment, and tourism-related uses • Establish a permanent venue for trade exhibitions, conferences, and sports events that will compete in scale regionally, reinforcing the commercial attraction of the complex • Position the Central Business Park as the premier business and tourism center in the Manila Bay Area and National Capital Region by showcasing contemporary building architecture and efficient urban planning

Business Portfolio

Retail Merchandising

SM Department Stores

SM Quiapo
SM Harrison
SM Makati
SM Delgado
SM Cubao
SM North Edsa
SM Sta. Mesa
SM Ortigas
SM Cebu
SM Las Piñas
SM Bacoor
SM Fairview
SM Mandurriao
SM Manila
SM Pampanga
SM Davao
SM Cagayan De Oro
SM Bicutan
SM Lucena
SM Baguio
SM Marilao
SM Dasmariñas
SM Batangas
SM San Lazaro
SM Sucat
SM Sta. Rosa (Feb '06)

SM Supermarkets

SM Supermarket North Edsa
SM Supermarket Sta.Mesa
SM Supermarket Ortigas
SM Supermarket Las Piñas
SM Supermarket Bacoor
SM Supermarket Fairview
SM Supermarket Manila
SM Supermarket North Reclamation (Cebu)
SM Supermarket Jaro
SM Supermarket Delgado
SM Supermarket Mandurriao
SM Supermarket Pampanga
SM Supermarket Matina
SM Supermarket Carmen
Supersale Club
Savemore Marikina
Savemore Mactan
Savemore Festival Mall
SM Supermarket Lucena
SM Supermarket Baguio
Savemore Elizabeth Mall (Cebu)
SM Supermarket San Lorenzo (Makati)
SM Supermarket Dasmariñas (Cavite)
SM Supermarket Batangas
SM Supermarket San Lazaro

SM Hypermarkets

SM Hypermarket Sucat
SM Hypermarket Bicutan
SM Hypermarket Marilao
SM Hypermarket Valenzuela
SM Hypermarket Molino

Shopping Malls

SM Prime Holdings, Inc.

SM City North Edsa
SM City Sta. Mesa
SM City Megamall
SM City Cebu
SM Southmall
SM City Bacoor
SM City Fairview
SM City Iloilo
SM City Manila
SM City Pampanga
SM City Sucat
SM City Davao
SM City Cagayan De Oro
SM City Bicutan
SM City Lucena
SM City Baguio
SM City Marilao
SM City Dasmariñas
SM City Batangas
SM City San Lazaro
SM Supercenter Valenzuela
SM Supercenter Molino
SM City Sta. Rosa (Feb '06)

Banking & Financial Services

Banco De Oro Universal Bank

Card Products
Commercial and Industrial Loans
Consumer Loans
Deposits
Foreign Exchange
International Banking
Investment Banking
Private Banking
Remittance
Transaction Banking
Treasury Dealership
Trust Services

China Banking Corporation

Deposits
Insurance Products
International Banking Services
Loans and Credit Facilities
Trust and other Fiduciary Services

Equitable PCI Bank

Deposits
Investment Banking
Loans and Credit Facilities
Private Securities
Treasury Dealership and Brokerage
Trust Banking

Real Estate Development and Tourism

SM Development Corporation

Chateau Elysée
Mezza Residences

Highlands Prime, Inc.

The Woodridge
The Horizon
The Woodridge Park

Taal Vista Hotel

Hamilo Coast

SM Central Business Park

OneE-comCenter
Maitrade Expo and Convention Center

RETAIL MERCHANDISING

Currently encompassing over 50 stores in total, SMIC's retail merchandising segment continues to be the frontrunner in its industry, leading the way in adopting new technologies as well as consistently providing premium value for money.

921,051
square meters total gross floor area
In SM Department Stores, SM Supermarkets, and SM Hypermarkets

Vision

SM Department Store further expanded its nationwide reach during the fiscal year with the opening of two new branches—SM San Lazaro in the city of Manila and SM Sucat in Parañaque City. This increased its branch network to 25 stores, with a total gross floor area of 675,709 square meters, and a total net retail sales area of 292,229 square meters. Revenues increased by 8.4%, up to ₱39.8 billion in 2005 from ₱36.7 billion in the previous year. Net income also grew by 3.2%, up to ₱1.11 billion from ₱1.07 billion in 2004. Gross profit margin increased to 21.93% from the previous year's 21.76%.

Apart from physical and financial growth, the SM Department Stores made progress in the areas of marketing, operations and service as well. The well-received renovations of SM Makati and SM Delgado validated the company's ongoing endeavor to reposition the SM Department Stores as a lifestyle store chain. The transformation continues with the renovations of two more flagship branches, SM Megamall and SM North EDSA, within 2006.

Also in 2005, an intensive marketing campaign was launched introducing SM's new tagline: "My Store. My SM." Popular actress-celebrity, and beauty pageant titlist, Charlene Gonzalez was tapped as SM's new image model, as she aptly represents the "smart and fashionable SM woman."

This campaign has successfully launched SM as more than just a Department Store— rather, a one-stop fashion and lifestyle store— however, still in keeping with its brand of "value for money." Positive consumer feedback has propelled the SM Department Stores to further this campaign with continuous in-store collaterals, print publicity, events, and other below-the-line activities.

The introduction of the SM Advantage Card, in 2004, was a manifestation of SM's value for customer loyalty. Since then, SM Advantage's cardholder base has quickly doubled, from 1.1 million to 2.2 million by year-end 2005. This is particularly satisfying as the program is designed not only to encourage continued customer patronage, but to reward customer loyalty with immediate benefits for participation in regular and seasonal promotions. The SM Advantage Card is the largest loyalty program in the country, with 181 partner establishments nationwide and total member spending (within SM retail partners) of over ₱5.0 billion, in 2005.

Furthermore, the SM Department Stores has strengthened its business intelligence by improving its merchandise management system. Logistics and supply chain management will likewise be enhanced through the establishment of a unified distribution center, allowing for greater flexibility and responsiveness across the board through centralized monitoring and decision-making. SM continues to lead the field by constantly upgrading facilities, strengthening partnerships with suppliers, and improving coordination among affiliate, consignor, and outright revenue streams.

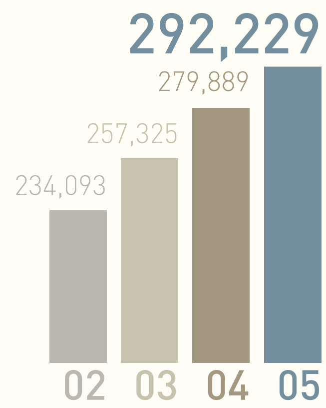
The SM Department Stores forged a strategic alliance with world-renowned MasterCard International, in 2005. Through this merchant tie-up, SM now offers rebates to customers utilizing MasterCard credit facilities in-store. Furthermore, MasterCard has pledged year-round marketing support for SM, in the form of sponsorships and other consumer marketing-related endeavors.

Innovation

A significant development this past year was the approved acquisition of the SM Supermarkets and SM Hypermarkets into the fold of SMIC. Both are dominant players in their respective niches as well as prominent components in the SM Group's retail business, making their formal integration under SMIC the logical next step in solidifying the company's market leadership in retail merchandising, while also enhancing shareholder value.

The SM Supermarkets provide comfortable, hygienic alternatives to the traditional wet market. These stores are particularly successful in the provinces, where the company has experienced satisfying results as more consumers discern the advantages of convenience and guaranteed quality in a clean, expertly-managed environment. Local suppliers have also been converted by the demonstrated reduction in goods wastage through proper facilities for handling and storage.

The company is committed to its core business of enhancing its market's lifestyle through a strategic emphasis on fresh goods and healthy alternatives. Simultaneously, SM Supermarket facilitates government progress by contributing substantial local and national taxes, thereby accelerating development in some of the country's more remote areas. The company also bolsters employment rates in the areas in which it operates, as well as providing opportunities for local suppliers and entrepreneurs by establishing technologically-advanced, expertly-run venues for their products and businesses. The SM Supermarkets



SM Department Stores
Net Retail Sales Area
(in square meters)

registered over 54 million transactions in 2005, with net retail sales of ₱27.15 billion. Net income went up by a gratifying 56%, up to ₱1 billion from ₱653 million in 2004.

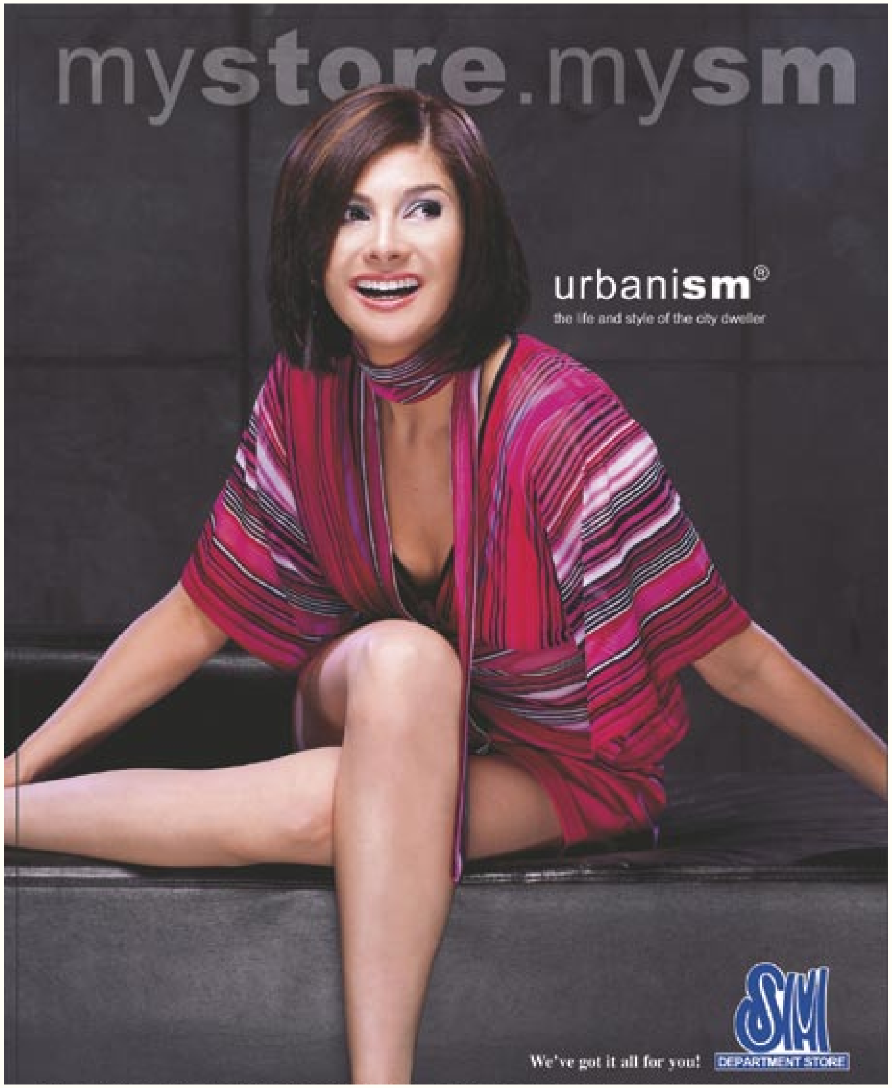
The SM Hypermarkets comprehensively meet consumers' daily needs with a well-honed balance of fresh food, general merchandise, and discount shopping. The Hypermarkets are placed in emerging markets and smaller locales, not only to expand SM's reach but also as a synergistic step toward prospective Supermall development at a later stage. Guided by a dynamic young management team, the SM Hypermarkets registered over nine million transactions in 2005, with revenues growing by 23% to ₱5.8 billion in less than five years of operation.

₱39.8 Billion total revenues

of 25
SM Department Stores

More than 50 branches across the country

of SM Department Stores, SM Supermarkets, and SM Hypermarkets



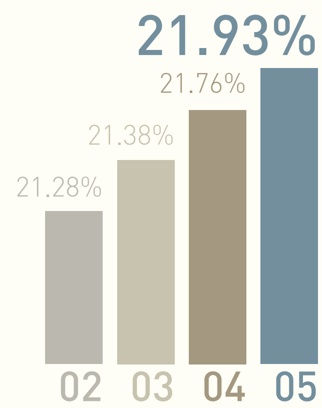
Value

A strategic initiative for the coming years is to expand the fresh food business within the SM Supermarkets and Hypermarkets to achieve a more formidable market share. The inclusion of both store chains under SMIC adds tremendous value to the holding company, while continuing to benefit small and medium enterprises by providing logistics and volume sales venues for their products. As top buyers of major corporations such as Nestlé, Unilever, Procter & Gamble, Johnson & Johnson, Colgate-Palmolive, Splash, and The Purefoods Hormel Co., the SM Supermarkets and Hypermarkets have also made strategic alliances with these and other national and international companies.

Internally, SMIC cultivates synergy still further through the promotion and distribution of its in-house label, SM Bonus. SM Bonus has proven instrumental in building the SM identity in markets as far removed as Japan and Saudi Arabia, while leveraging the SM brand name in Filipino communities to offer more options for consumers. This allows the company to serve its target market even beyond Philippine shores, while opening the door for successive developments on a global scale.

In the fiscal year ended March 2005, SM's retail business, as a whole, registered consolidated revenues of ₱39.1 billion, up 8% over the previous year. Retail sales contributed 74% of SMIC's total revenues, retaining its status as the Group's primary financial growth driver. Altogether, the SM Department Stores, Supermarkets, and Hypermarkets have reached a total gross floor area of over 921,050 square meters and a total retail net sales area of more than 481,380 square meters. Total net stock keeping units for all three are well in excess of one million units.

Expansion plans continue unabated, with three new Department Stores planned for 2006 and five SM Hypermarkets slated for opening during the year, effectively doubling the SM Hypermarket's branch network. This takes SM closer to its goal of establishing its presence in all major provincial cities—spurring local progress, providing more employment through more store branches, and reaching out to customers across the nation.



SM Department Stores
Gross Profit Margin

SMIC's thrust in this sector remains on constant improvement of quality control, technology, and equipment—advancing global standards with an emphasis on exceptional quality. The retail group will continue to apply its in-depth market knowledge to further refine its merchandising and marketing strategies, anticipating and adapting to the needs of its significant and still-growing customer base.

SHOPPING MALLS


The first company to integrate shopping, dining, entertainment, and leisure under one roof in the Philippines, SM Prime Holdings, Inc. maintains its leadership position in the field through attentive management and a customized tenant mix for each area in which it operates.

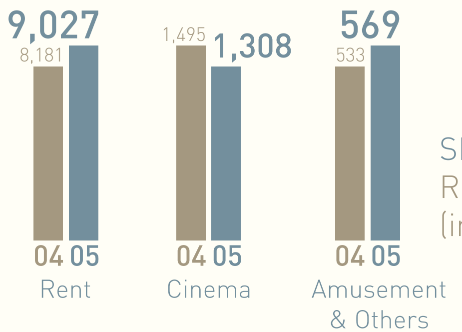
Vision

SM Prime Holding's, Inc., in 2005, reaffirmed its status as the largest shopping mall owner, developer and operator in the Philippines. It was a year of achievements as the renowned SM Supermall brand aggressively pursued new markets, while progressively expanding existing ones.

SM Prime, anchored by its steadfast vision of evolving into the premiere shopping mall developer in the region, is driven by sound innovation and a solid strategy for growth.

Overall profitability and financial position remains strong with consolidated revenue growth of 7% to ₱10.9 billion from last year's ₱10.21 billion. Rental revenue remains the largest contributor at ₱9.03 billion, a 10% improvement over 2004's ₱8.18 billion. This put EBITDA during 2005 at a comfortable ₱7 .51 billion, up 6% from the previous year. As a result, net income improved from ₱4.62 billion to ₱4.97 billion and return on equity remained steady at 15%.

Due to increased capital expenditures allocated for expansion programs, payments of dividends, interest and principal amortization, cash and cash equivalents including investments held for trading decreased by 49%. However, SM Prime's balance sheet remained robust with total fixed assets at 76% of total assets as of end-2005, well ahead of previous year's 65%.



SM Prime Holdings Inc.
Revenue Breakdown
(in Million Pesos)

In July 2005, ₱5 billion was raised from the issuance of a five- and seven- year fixed-rate notes facility, easily the largest corporate private placement of the year. The market's response was enthusiastic and the facility was oversubscribed. This represented a strong vote of confidence for SM Prime and a validation of our goal to aggressively expand the SM Supermalls concept.

In 2005, SM Prime's network of Supermalls widened, yet again, and the Company now operates 23 branches nationwide. To date, total gross floor area amounts to 2.9 million square meters, 2.0 million of which are gross leasable. Average occupancy rate registers at a strong 95 percent, translating into over 5,300 tenants the Company has effectively managed through the years.

In July 2005, SM Prime opened SM City San Lazaro, its second Supermall in the City of Manila – the only major mall in one of the country's oldest and busiest commercial and residential centers. Its floor area of almost 180,000 square meters accommodates 563 tenants, serving the populous university belt, downtown Manila and Chinatown.

Valenzuela, just north of Metro Manila, is host to an SM Supercenter that opened in October 2005, tapping into the area's rich populace of some 500,000 and the 1,500 industrial firms that call this location home. SM Supercenter Valenzuela's 70,616 square meters of gross floor currently enjoys 95% tenant occupancy rate.

SM Supercenter Molino, the third Supermall in Cavite, opened in November 2005. With a total gross floor area of 48,710, the mall was opened with a robust tenant occupancy rate of 99 percent over its 25,942 square meters of leasable space.

SM Prime believes not only in focusing on a vision but constantly innovating operations and renovations for a public that has become more discerning and demanding. True to its tenet of being not only the largest mall developer and operator, your Company undertook a concerted effort at improving its existing Supermalls with numerous additional services and facilities, building improvements and renovation.

- SM Prime remained diligent and vigilant about improving infrastructure and conducting maintenance procedures. Modifications were made to better cater to the physically-challenged with the addition of hand rails, ramps and convenient parking spaces for the handicapped.

- Furthermore, many of the SM Supermalls have improved their traffic routing, added public transport depots and implemented rigorous security procedures and augmented the security personnel thus concretizing our emphasis on safety and ensuring optimal customer service.

- In line with renovation programs, SM Prime made architectural improvements by raising the ceilings and adding skylights in selected Supermalls thus creating a more pleasing ambience while becoming more energy efficient. Many SM Supermalls have also retrofitted their façades with improved lighting and increased advertising spaces which have substantially contributed to both the design of the mall and its operational income.

- In close coordination with Banco de Oro (BDO), SM Prime has installed more Automated-Teller-Machines (ATMs). This endeavor is a testament to the synergistic efforts of the SM Group and your Company's first-rate management of its commercial property space.

Innovation

Beyond structural renovations and enhancements, SM Prime brings to its clientele new and fresh mall concepts. It has been envisioned that the malls of today are not just market places but community and social centers for diverse target markets: SM Prime's Supermalls are not just shopping centers; they are avenues for dining, entertainment and leisure.

- With a strong history of high pedestrian traffic and even higher sales, SM Prime draws in more retail and service establishments. Notwithstanding such a diverse set of tenants, the Company has improved zoning and supported these with tenant cluster promotions and sales. Regular mall-wide sales continue to be major attractions, boosting sales both for the Company and its tenants.

- The SM Supermalls have extended its services to include activities outside of the usual shopping experience. In cooperation with the Department of Trade and Industry's Consumer Welfare Center, SM Prime has put up "help hubs" or central help desks at malls where mall visitors can acquire information on consumer welfare issues, register business names, SSS benefits and guidelines. In line with SM Prime's philosophy of enabling the Filipino, the Company supports government services and helps consumers and entrepreneurs.

- In May 2005, SM Prime and the Bureau of Internal Revenue launched tax awareness programs by distributing receipt consciousness tickets to all tenants. The Philippine government has recognized the SM Supermalls network as a venue beneficial and far-reaching for their programs.

- Keeping with the times and finding new ways to become a preferred entertainment venue, SM Prime introduced "Cinema Live" wherein cinemas are not only venues for movies but have become stages for

SM Prime Holdings, Inc. is the largest and most successful mall owner, developer, and operator in the Philippines.

concerts and live performances, school activities such as graduation ceremonies and the live broadcast of the Manny Pacquiao boxing match from Las Vegas.

• Currently, SM Prime is the largest cinema operator in the country; the Company received the Top Grosser Award for the Metro Manila FilmFest 2005 with a total of 1,487,737 tickets sold in one day! The Company currently operate 156 cinemas; by end of the year, SM Prime will have a total of 180 cinemas.

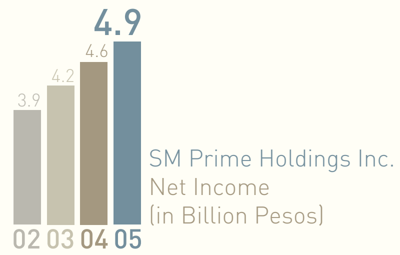
Value

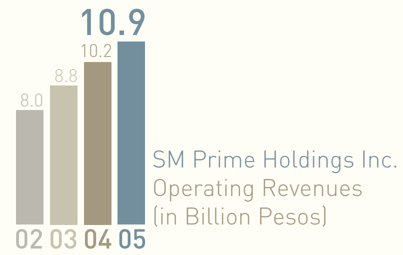
With its steadfast vision of continuous growth and expansion across the nation, SM Prime will continue to innovate and create the penultimate SM Supermall experience for its diverse markets.

This SM Supermall experience is now truly accessible to customers across the nation. The SM Supermall pioneering combination has been well-received in the provincial cities the Company has chosen to located. Further to this unparalleled SM Supermall experience, it has become an avenue for employment and a boost to entrepreneurs of varying scale and inclination.

SM Prime will continue its expansion programs in the provincial regions of the country, initially, serving these emerging markets with "Supercenters" that are specifically designed to accommodate future expansion. The Company, therefore, establishes itself in regions with dense populations and growth potential, concurrently increasing market share and improving cash flows. This expansion remains true to the vision of SM Prime: catering to consumers' needs and interests, preserving its value and brand proposition. In all its endeavors, SM Prime emphasizes financial prudence and operational aptitude.

SM Prime's drive to bring the ultimate Supermall experience to more communities extends through its plans for 2006 and 2007: commencing with SM Supermalls in Clark in Pampanga, Frontera Verde in Pasig City, North EDSA Annex 3, Lipa in Batangas, and Bacolod in Negros Occidental.





Due to the tremendous popularity and accomplishment of SM City Pampanga, SM Prime will open on May 12, 2006, SM City Clark in Pampanga, one of Central Luzon's upwardly mobile regions with a population of over 200,000 people. 90,000 square meters will be developed within the 16.5 hectare property.

SM Supercenter Frontera Verde, slated to open in the third quarter of 2006, is located in the bustling Pasig City. It is expected to draw customers from the populous residential, commercial and industrial areas nearby. It will have a total gross floor area of 29,085 square meters with a leasable area of 24,412 square meters.

Following the footsteps of the thriving SM City Batangas is SM City Lipa to service the city's 200,000-plus residents. The Company also has plans to bring the SM Supermall experience to the Visayas region, in particular, Bacolod City in Negros Occidental. Once known as the "Paris of Asia", Bacolod City is showing revitalized socio-economic activity.

In the pipeline is an allocated 118.7 hectares for development in 14 locations: Marikina, Parañaque and Muntinlupa within the Metro Manila region and provincial locations such as Bulacan, Tarlac, Laguna and Pangasinan. Sustaining the vision of expanding its Supermall network and bringing the SM experience to more places and customers, SM Prime intends to build at least four to five malls annually for the next three years.

In line with the Company's thrust to remain the top-of-mind brand in mall development and operations, SM Prime visualized and made real the creation of what is slated to be the country's preeminent shopping, dining, leisure, and entertainment center — the SM Mall of Asia. The much-anticipated opening is scheduled for May 21, 2006.

2,905,833 square meters
Total Gross Floor Area
in 23 Supermalls

Its 386,000 square meters will host over 600 of both local and international brands; premiere establishments have chosen to locate their flagship stores into what is billed to be the epitome of the SM Supermall experience.

The SM Mall of Asia is a mall of "firsts": the first major mall undertaking by the beautiful and scenic Manila Bay, the first Olympic-sized skating rink, and the first IMAX cinema in the Philippines. The IMAX theater will have an enthralling 22 by 30 meter screen and will seat 630, a truly unique cinematic experience by IMAX's pioneering technology and through the Company.

The Company's programs and efforts have been acknowledged and appreciated by various award-winning bodies in the country and in Asia. SM Prime was cited in The Asset Benchmark Research as "Best in Corporate Governance" in the Philippines while AsiaMoney Magazine gave the Company the honor of being the "Best Managed Retail Company in Asia".

Furthermore, SM City Baguio shines as the country's "Shopping Center of the Year", awarded in 2005 by the Department of Trade and Industry and the Philippine Retailers' Association. The award recognizes the innovative architecture and design of SM City Baguio and its industrious efforts to engage homegrown tenants. This Supermall has become the primary venue for unique and local community events, as well as a catalyst for local entrepreneurship.

In the years to come, SM Prime Holdings looks forward to stronger growth and more aggressive expansion into new markets. The Company believes that innovation is key in keeping its enterprise relevant and leading-edge, even as focus is maintained on a vision to provide only the best SM Supermall experience.

BANKING & FINANCIAL SERVICES

With the nation's top banks among its flagship companies, SMIC's banking and financial services group leverages the individual strengths of each brand to maximize rapid growth strategies for all its businesses in this sector.

Banco de Oro Universal Bank

Banco de Oro was ranked among the top 5 Philippine banks in terms of resources in 2005, with ₱233.4 billion, up by 30% from 2004. It was ranked third largest in trust assets with ₱111.8 billion. The Bank also maintained top ten rankings for its subsidiaries, BDO Insurance Brokers, Inc. and BDO Capital & Investment Corporation. BDO's Non-Performing Loan ratio decreased to 4.4% from the previous year's 5.9%. Based on latest industry data, the Bank's asset quality ratios were the best in the industry.

At above average growth rates for deposits and loans, the bank was ranked 6th in deposits, with ₱159.0 billion, a 24% increase from the previous year. It was ranked 8th in capital, with ₱19.9 billion, up by 17%. Consolidated net income increased by 29% to ₱2.5 billion. BDO's strong performance was driven by a 37% growth in net interest income to ₱6.8 billion and a 59% rise in non-interest income to ₱3.9 billion.

On January 19, 2006, the Bank was the first Philippine company to tap the international capital markets with its US$115 million Global Depository Receipt equity deal, believed to be the first fully-marketed GDR offering from the Philippines since the Asian financial crisis in 1997. The book was strongly oversubscribed, indicating international confidence in BDO's strategy and vision.

Listed on the London Stock Exchange on January 26, the GDRs quickly appreciated from the initial price of US$12.70 to US$14.30 by March 2006—an increase of 12.6%. BDO's GDR offering was the sole Philippine issue listed on the London Stock Exchange, and achieved several objectives, including the facilitation of greater foreign investor participation and the raising of proceeds to support the SM Group's future acquisitions and growth.

By March 2006, Banco de Oro completed the integration of the 66 branches it acquired from United Overseas Bank – Philippines in 2005. A total of 31 branches were realigned as BDO branches; 4 were relocated; and the remaining 31 were consolidated into existing BDO branches, for redeployment over the next twelve to eighteen months. The integration was accomplished in record time, increasing the bank's total network from 185 in December 2005 to 220 in just three months. The ongoing redeployment of the remaining 31 branch licenses will further expand this total to 251 branches.

The Bank launched the BDO International ATM Card in 2005, thereby introducing the first MasterCard Electronic ATM card in the country. The card may be used at 4,000 BDO Expressnet and Megalink ATMs locally and over one million Cirrus ATMs in 120 countries around the globe. It is recognized by more than 10,000 BDO and Express Payment System merchants in the Philippines, and at millions of Maestro and MasterCard Electronic merchant locations worldwide.

BDO also opened its Electronic Banking Center at SM Makati in January 2006, establishing a convenient and technologically-advanced venue for clients to conduct banking transactions. Equipped with facilities for a full range of electronic banking channels including automated teller machines, myBDO Internet Banking, and BDO Phonebanking, this is the first of several electronic banking centers slated for opening at the SM Supermalls.

The bank's newest subsidiary, BDO Private Bank, achieved an impressive growth in the volume of funds under management, up 106% to ₱25.7 billion by year-end 2005 from ₱12.4 billion in 2004. This represented a total 271% increase since the SM Group first acquired the business from Banco Santander Philippines in August 2003. BDO Private Bank actually has a separate banking license from Banco de Oro Universal Bank—a unique business model that allows flexibility in wealth management for high net worth individuals, complemented by more standard commercial banks services such as credit facilities.

Furthering the synergy among the SM Group of Companies, BDO Realty worked closely with SM Development Corporation throughout the year, enabling property development projects such as the ongoing Mezza Residences, located across SM Sta. Mesa. The two companies are currently engaged in strategic planning for still more projects in the near future, again with BDO as the landowner and SMDC as the developer of premium middle market residential communities.

With the Bank's financial performance, industry position, and public confidence solidly established in the fiscal year 2005-2006, Banco de Oro Universal Bank is well-prepared to sustain and accelerate its consistent growth.

BDO again posted the lowest Non-Performing Loan ratio at 4.4%

BDO's GDR offering was the sole Philippine issue listed on the London Stock Exchange

CBC's return on average shareholders' equity at 15.58%, return on assets at 2.64%, and capital adequacy ratio at 28.17%

China Banking Corporation

In 2005, China Bank celebrated its 85th anniversary with a fourth straight year of record income, and maintained its solid performance in profitability, balance sheet strength, cost efficiency and capital adequacy. It was ranked the 7th largest Philippine commercial bank in terms of equity at P 21.93 billion and 11th in terms of assets at ₱132.95 billion, up 16.96%. The bank maintained its industry-best return on average shareholders' equity at 15.58%, return on assets at 2.64%, and capital adequacy ratio at 28.17%.

China Bank's net income grew 14.33% to ₱3.18 billion, inclusive of adjustments arising from new financial reporting standards. The bank experienced a 19.1% growth in total interest revenues to ₱10.2 billion, as loans growth benefited from a sharp rise in consumer lending, and pick up in corporate and middle market accounts. Loan loss reserves grew by another ₱822 million to ₱6.69 billion, improving loan loss coverage further to 94.64% from 81.45%, and higher than the industry average of 78.35%. NPL ratio fell significantly to 8.11% from 11.4% in 2004 due to more rigorous credit risk management.

Non-interest revenues rose 33.5%, with gains from securities trading, asset disposals and trust operations. Another record growth in low-cost deposits bolstered total funding base by 19.4% or ₱16.7 billion, and contributed to above-average interest margins. The bank further enhanced its cost efficiency ratio to 46.08% from the previous year's 46.45%, also an industry-best performance. China Bank's financial strength credit rating was upgraded from BB to BB+ by Capital Intelligence and affirmed at C/D by Fitch.

ChinaBank launch its ChinaBank ONLINE internet and mobile banking service to enhance multi-channel customer convenience for retail, and a corporate portal that offers Cash Management services to business clients. ChinaBank On-Time Remittance service was also launched, as alliances were set up in key areas. China Bank also cited as Outstanding Commercial Bank by several award-giving bodies, and its HomePlus product was cited as the Most Outstanding Real Estate Loan by the Philippine Quality Awards for Business Excellence.

SM Investment Corporation's banking and financial services front currently encompasses several of the top ten Philippine banks. The banks' individual strengths and specializations, optimized through strategic synergies with one another and among the SM Group, comprise a solid foundation for further strengthening SMIC's position in this industry segment.

REAL ESTATE DEVELOPMENT & TOURISM



With its nationwide reach, vast land bank, and strong competencies in residential, leisure, and mixed-use property development, SMIC is well-poised to harness the enormous potential in real estate development and tourism, the next major growth area for the Philippine economy.

Vision

The real estate sector in the Philippines has been invigorated with current trends favoring residential projects, complemented by commercial and office developments. It is certainly an opportune time for SM Development Corporation to aspire and become the country's leader in the residential development industry.

Additionally, lower interest rates and flexible payment terms, now further encourage the market to acquire real estate investments. Thus, the Company has identified more opportunities to expand its project portfolio: specifically designing and creating for the active middle market segment. These trends show much promise and potential, and will help ensure that the Company's core business in real estate and tourism development will have a steady revenue stream.

The current confidence in the market is creating significant opportunities for SMDC. In particular, the Company sees increasing demand for residential and office space near the SM Supermalls, thus paving the way for the development of integrated communities in commercial areas. SMDC has identified the middle market as a segment with the most growth potential in the coming years. The Company envisions a prime position in the market, by creating innovative community developments for this emergent property sector.

SMDC ended the year with a significant income generation, netting ₱652 million on ₱867 million revenues, a solid 23.4% increase from the preceding year's ₱528 million net profit.

Real estate accounted for ₱218 million or 25% of ₱867 million total revenue while earnings from equity and fixed-income investments contributed the balance. Income from investment operation totaled ₱618 million while income from real estate sales amounted to ₱34 million. Cash flow from operations was likewise positive at ₱82 million. Our debt-to-equity ratio stood at a healthy 6% and EBITDA stood at ₱94 million.

SMDC is confidently and steadily transforming into a major player in property development through a combination of focused strategy, financial prudence and management experience.

Innovation keeps the Company in step with the expectations of today's upwardly-mobile Filipino. SMDC's mission is to develop projects that are relevant to these urbanites: affordable homes anchored on quality, practical amenities for dynamic lifestyles, and convenient locations.

SMDC has completed the second phase of its maiden project, the ₱4.3 billion-Chateau Elysée. These six-cluster, six-storey French-Mediterranean-inspired condominium towers are located within a 4.7 hectare property in Parañaque City, five minutes away from SM City Bicutan. The second phase, Cluster 2: "Lafayette," has 384 units. It will be ready for occupancy by early 2006, its current registered market take-up is relatively within expectation.

The Chateau Elysée Clubhouse and Courtyard was completed in December 2005, adding to the amenities to complete the total residential lifestyle of "Resort Living in the City". Key amenities include a swimming pool, gym, jogging trail, and a social hall.

Chateau Elysée, a showcase of our innovative approach to community development, is a strategically located eco-friendly community with wide roads, open spaces, gardens and superb facilities. It is within reach of schools, hospitals, places of worship, and public transport hubs and malls.

SMDC's first high-rise project is the ₱5.2 billion 38-storey four-tower Mezza Residences across SM City Sta. Mesa, Manila. Market take up was relatively strong due to its excellent location: the density in Sta. Mesa favors vertical residential developments that cater to entrepreneurs, mid-management, medical students and professionals in the vicinity of Araneta Avenue and Aurora Boulevard.

Each high-rise will have 348 units composed of one-, two- and three-bedroom configurations, with floor areas ranging from 21 to 86 square meters. In all, the Mezza will have 1,551 residential units available priced between P 960,000 to less than ₱5 million. The first two towers will be ready for occupancy by 2009.

The Mezza's Podium level will house various service and retail establishments. Supplementary key facilities will also include a landscaped community deck with a swimming pool, jogging path, health station, a 1,000 square meter lawn-picnic area with barbecue facilities, and a Zen-garden. Moreover, occupants of the Mezza will enjoy high-rise views of Quezon City to the north, Antipolo City to the east, the Makati and Ortigas business districts to the south and Manila Bay and its famous sunset to the west.

SMDC will pursue its vision of creating innovative communities catering to the progressive needs and requirements of the country's growing middle-market.

Innovation

Tourism, in particular, has been identified as the most promising growth sector for the Philippine economy, with an abundance of natural resources and prospective tourist spots all across the nation. More capital, facilities, and infrastructure are needed, however, to nurture this potential—a challenge which Highlands Prime, Inc. meets with its continued focus on developing luxury residential communities at the exclusive Tagaytay Highlands mountainside resort. Its maiden project, The Woodridge, was entirely sold out in 2005 and its last building was finished, completing the 138-unit mid-rise condominium complex.

HPI's second project, The Horizon, is expected to have its first phase completed by midyear 2006, but has already achieved sales of 25% with only the first six of its twelve Zen-inspired buildings completed. The company also broke ground in February on the Woodridge Park, a medium-density condominium community planned in the manner of Colorado mountain resorts.

Bolstered by home loan tie-ups established with Banco de Oro and ChinaBank in 2005, HPI's net income grew by 37%, up to ₱173 million from ₱126 million the previous year. Gross revenues were derived from sales of The Woodridge and The Horizon condominium units and Lakeview Heights subdivision lots. Highlands Prime declared its first cash dividend in 2005, at 5% of par value, totaling approximately ₱112 million.

5,700-hectare coastal leisure property development in Hamilo Coast

SMDC will pursue its vision of creating innovative communities catering to the progressive needs and requirements of the country's growing middle-market.

₱2.6B capital expenditures for OneE-ComCenter and Maitrade Expo and Convention Center in the SM Central Business Park, by scenic Manila Bay

The ₱500 million renovation of the Taal Vista Hotel was further enhanced with the opening of the Ylang-Ylang Spa, an upscale spa concept using all-natural techniques and indigenous, organic ingredients. Also during the year, more recreational facilities including a gym, game room, and kiddie corner were completed. Furthermore, the Hotel garnered a Four-Star First-Class rating from the Department of Tourism.

In Nasugbu, Batangas, the first phase of Hamilo Coast beachfront resort is well underway, following a masterplan drafted this year by an assembled team of international consultants. Phase one will develop 800 hectares of the total 5,700 hectare property, which encompasses 13 natural coves and 32 kilometers of pristine coastline and virgin forest. The masterplan was meticulously designed to preserve these unspoiled resources, while optimizing the property with residential communities and complete leisure amenities such as restaurants, hotels, and facilities for golf, diving, swimming, hiking, and more.

Value

Progress on SMIC's key urban development, the SM Central Business Park, is also proceeding apace, with its technologically advanced infrastructure fully completed in 2005. The SM CBP is a 60-hectare mixed-use site that integrates sophisticated business facilities with recreational and residential components. Located at the terminus of Metro Manila's main thoroughfare, the park is also close by the capital city's airport hub, hotel district, and famed Manila Bay, positioning it as an ideal nexus for tourism and trade.

SMIC has provided the impetus for long-term development within the park by opening the SM Mall of Asia and commencing the construction of OneE-ComCenter, a ten-storey e-commerce building with 98,694 square meters of fully-wired leasable space designed specifically for call centers and business process outsourcing firms.

The company also broke ground in March 2006 on the 42,500 square meter Maitrade Expo and Convention Center, which will be the Philippines's privately-run convention and exhibition venue. SMIC is currently in negotiations with third parties to develop its hotel row overlooking the bay; and has located a major international call center facility, with a gross floor area of over 13,000 square meters within the SM Mall of Asia..

With even more developments in the planning stages—such as a multi-purpose arena with a seating capacity of 16,000; modern high-rise clusters that will combine offices, condominiums, and service apartments; and a ferry linking the complex to Hamilo Coast—the SM Central Business Park firmly establishes itself as the only development of its scale, and potentially the most significant contiguous business district in the Manila Bay area.

With numerous activities in this business segment, SMIC is positioning itself as a key player in the ongoing real estate uptrend, leveraging its sizeable land bank and its strong competencies in mixed-use, residential, and leisure property development. SM Investments Corporation is actively taking an aggressive stance in this industry, with the goal of increasing this segment's contribution to overall company revenue, and guiding its real estate development and tourism business to a leadership position alongside the other companies of the SM Group.

Directory

Retail Merchandising

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SM Supermarkets
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email: cservice@smsupermarkets.com
website: www.smsupermarket.com

SM Hypermarkets
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website: www.chinabank.ph

INNOVATION

SMIC's long-standing market leadership in the sectors of shopping malls and retail merchandising stems from its commitment to innovation in all its endeavors. The company was the first in the country to combine shopping and dining at the SM Department Store, later adding entertainment and leisure to the mix when it opened the nation's first mall. It then added a new dimension to Philippine leisure by launching the country's first ice skating rink at SM Megamall. As the nation's largest and most ambitious mall, the SM Mall of Asia furthers this decades-long tradition of innovation by introducing the Philippines's first IMAX Theater and its first Olympic-sized ice skating rink.

Statement of Management's Responsibility for Financial Statements

The management of SM Investments Corporation is responsible for all information and representations contained in the financial statements for the nine months ended December 31, 2005 and fiscal year ended March 31, 2005. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Henry Sy, Sr.
Chairman

Harley T. Sy
President

Jose T. Sio
Second EVP and
Chief finance Officer

Report of Independent Auditors

The Stockholders and the Board of Directors
SM Investments Corporation

SGV & Co

We have audited the accompanying consolidated balance sheets of SM Investments Corporation and Subsidiaries as of December 31, 2005 and March 31, 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the nine months ended December 31, 2005 and the year ended March 31, 2005. 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 did not audit the financial statements of 11 consolidated subsidiaries. The accompanying consolidated financial statements include the accounts of such consolidated subsidiaries which reflect total assets amounting to ₱17,801.5 million (10.53% of total assets) and ₱14,277.2 million (9.24% of total assets) as of December 31, 2005 and March 31, 2005, respectively, and net income amounting to ₱1,429.5 million (13.72% of net income) and ₱885.0 million (10.05% of net income) for the periods ended December 31, 2005 and March 31, 2005, respectively. We also did not audit the financial statements of four associates, the investments of which are reflected in the accompanying consolidated financial statements using the equity method of accounting and amounted to ₱12,684.1 million and ₱9,524.2 million as of December 31, 2005 and March 31, 2005, respectively. The Company's equity in the net earnings of such associates for the nine months ended December 31, 2005 and the year ended March 31, 2005, amounted to ₱1,145.3 million and ₱784.6 million, respectively. The financial statements of these subsidiaries and associates were audited by other auditors whose unqualified reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SM Investments Corporation and Subsidiaries as of December 31, 2005 and March 31, 2005, and the results of their operations and their cash flows for the nine months ended December 31, 2005 and the year ended March 31, 2005 in conformity with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.

Jose Joel M. Sebastian

Jose Joel M. Sebastian
Partner
CPA Certificate No. 61687
SEC Accreditation No. 0097-A
Tax Identification No. 104-597-500
PTR No. 4181271, January 2, 2006, Makati City

March 8, 2006

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND MARCH 31, 2005

	December 31, 2005	March 31, 2005 (As restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 2, 6, 16, 18, 20 and 27)	**₱11,174,935,676**	₱36,101,669,998
Investments held for trading (Notes 2, 3, 7, 16, 18, 20 and 27)	**8,806,359,001**	9,034,367,084
Receivables - net (Notes 3, 8, 20 and 27)	**5,553,669,974**	4,632,873,825
Merchandise inventories - at cost (Notes 16 and 21)	**1,357,734,162**	1,638,258,531
Condominium and residential units for sale (Note 13)	**60,618,464**	86,534,290
Input and other prepaid taxes - net	**1,166,513,408**	762,736,204
Other current assets	**273,829,848**	215,192,762
Total Current Assets	**28,393,660,533**	52,471,632,694
Noncurrent Assets		
Investments available for sale - net (Notes 2, 3, 9, 20 and 27)	**37,615,868,061**	18,627,743,947
Investments in shares of stock (Notes 2, 10 and 20)	**27,837,759,653**	17,479,439,423
Property and equipment - net (Notes 3, 11 and 16)	**16,677,541,718**	11,043,213,435
Investment properties - net (Notes 3 and 12)	**42,676,977,317**	37,758,860,218
Land and development (Note 13)	**1,542,482,817**	1,344,074,974
Time deposits (Notes 2, 14, 18, 20 and 27)	**12,744,490,601**	14,561,239,750
Other noncurrent assets (Notes 2, 3, 15, 23 and 24)	**1,587,598,236**	1,277,655,152
Total Noncurrent Assets	**140,682,718,403**	102,092,226,899
	₱169,076,378,936	₱154,563,859,593
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Notes 16, 20 and 27)	**₱10,179,014,000**	₱12,805,765,000
Accounts payable and accrued expenses (Notes 2, 17, 19, 20 and 27)	**12,606,438,275**	10,869,813,682
Income tax payable	**684,450,397**	674,102,861

(Forward)

	December 31, 2005	March 31, 2005 (As restated - Note 2)
Current portion of long-term debt (Notes 2, 18, 20 and 27)	**₱1,301,000,000**	₱1,515,787,143
Dividends payable (Note 27)	**1,086,764,312**	104,735,370
Total Current Liabilities	**25,857,666,984**	25,970,204,056
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 2, 18, 20 and 27)	**37,986,469,236**	39,270,606,483
Defined benefit liability (Note 23)	**310,051,085**	383,388,396
Deferred tax liabilities (Note 24)	**465,474,969**	156,204,399
Tenants' deposits (Note 25)	**3,397,874,944**	2,801,092,766
Total Noncurrent Liabilities	**42,159,870,234**	42,611,292,044
Stockholders' Equity		
Equity Attributable to Equity Holders of the Parent (Note 19)		
Capital stock	**5,300,000,000**	5,300,000,000
Additional paid-in capital	**23,382,709,537**	23,382,709,537
Cost of common shares held by a subsidiary	**(500,000,000)**	(500,000,000)
Unrealized mark-to-market gain on investments available for sale (Notes 2, 9 and 10)	**7,038,286,318**	–
Retained earnings (Note 2):		
Appropriated	**5,000,000,000**	10,000,000,000
Unappropriated	**37,221,863,387**	26,797,289,270
Total Equity Attributable to Equity Holders of the Parent	**77,442,859,242**	64,979,998,807
Minority interests (Note 2)	**23,615,982,476**	21,002,364,686
Total Stockholders' Equity	**101,058,841,718**	85,982,363,493
	₱169,076,378,936	₱154,563,859,593

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME FOR THE NINE MONTHS ENDED DECEMBER 31, 2005 AND THE YEAR ENDED MARCH 31, 2005

	December 31, 2005 (Note 28)	March 31 , 2005 (As restated - Note 2)
REVENUES		
Sales:		
Merchandise	**₱39,152,692,213**	₱36,237,623,630
Real estate (Notes 3 and 13)	**232,188,876**	254,679,388
Rent (Notes 20 and 25)	**8,323,506,121**	7,634,117,120
Equity in net earnings of associates (Note 10)	**2,079,267,626**	1,374,938,708
Cinema ticket sales, amusement and others	**1,877,347,517**	2,027,757,049
Dividends	**1,077,831,319**	739,787,307
Net unrealized mark-to-market gain on investments held for trading (Note 7)	**418,737,382**	–
Management fees (Note 20)	**268,478,195**	310,842,849
Gain on sale of investments in shares of stock, investments held for trading and real properties	**192,500,017**	1,206,312,808
Others	**359,157,491**	370,063,854
	53,981,706,757	50,156,122,713
COST AND EXPENSES		
Cost of sales:		
Merchandise (Note 21)	**30,560,093,042**	28,342,838,497
Real estate	**135,165,819**	152,112,813
Operating expenses (Notes 12, 20, 22, 23 and 25)	**10,805,040,773**	10,347,846,073
	41,500,299,634	38,842,797,383
Interest income (Note 20)	**2,656,700,652**	2,138,867,148
Interest expense (Notes 16, 18 and 20)	**(2,455,502,507)**	(3,293,615,659)
Foreign exchange gain	**103,694,310**	251,670,848
Excess of share in net assets of an associate over cost (Note 10)	**–**	676,855,798
INCOME BEFORE INCOME TAX	**12,786,299,578**	11,087,103,465

(Forward)

	December 31, 2005 (Note 28)	March 31, 2005 (As restated - Note 2)
PROVISION FOR INCOME TAX (Note 24)		
Current	**₱2,083,273,249**	₱2,230,883,330
Deferred	**285,292,403**	47,104,213
	2,368,565,652	2,277,987,543
NET INCOME	**₱10,417,733,926**	₱8,809,115,922
ATTRIBUTABLE TO:		
Equity holders of the Parent	**₱7,125,057,651**	₱5,764,086,098
Minority interests	**3,292,676,275**	3,045,029,824
	₱10,417,733,926	₱8,809,115,922
Earnings Per Common Share (Note 30)	**₱13.44**	₱14.12

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 2005 AND THE YEAR ENDED MARCH 31, 2005

	Attributable to Equity Holders of the Parent									Minority Interests	Total Equity
	Preferred Stock (Note 19)	Common Stock (Note 19)	Additional Paid-in Capital (Note 19)	Deposits for Future Stock Subscription (Note 19)	Cost of Common Shares Held by a Subsidiary (Note 19)	Unrealized Mark-to-Market Gain on Investments Available for Sale (Notes 9 and 10)	Appropriated Retained Earnings (Note 19)	Unappropriated Retained Earnings (Note 19)	Total		
Balance at March 31, 2005, as previously stated	**₱–**	**₱5,300,000,000**	**₱23,382,709,537**	**₱–**	**(₱500,000,000)**	**₱–**	**₱10,000,000,000**	**₱22,627,682,707**	**₱60,810,392,244**	**₱20,739,089,759**	**₱81,549,482,003**
Effect of changes in accounting for (Note 2):											
Business combinations	–	–	–	–	–	–	–	4,413,273,644	4,413,273,644	322,942,705	4,736,216,349
Pension benefits	–	–	–	–	–	–	–	(156,648,782)	(156,648,782)	(59,667,778)	(216,316,560)
Share from effects of changes in accounting policies of associates (Note 10)	–	–	–	–	–	–	–	(87,018,299)	(87,018,299)	–	(87,018,299)
Balance at March 31, 2005, as restated	–	5,300,000,000	23,382,709,537	–	(500,000,000)	–	10,000,000,000	26,797,289,270	64,979,998,807	21,002,364,686	85,982,363,493
Effect of change in accounting for financial instruments	–	–	–	–	–	4,332,183,838	–	154,516,466	4,486,700,304	2,440,414,245	6,927,114,549
Net share from fair value adjustments of associates during the period	–	–	–	–	–	170,605,372	–	–	170,605,372	36,227,284	206,832,656
Balance at April 1, 2005	–	5,300,000,000	23,382,709,537	–	(500,000,000)	4,502,789,210	10,000,000,000	26,951,805,736	69,637,304,483	23,479,006,215	93,116,310,698
Profit for the period	–	–	–	–	–	–	–	7,125,057,651	7,125,057,651	3,292,676,275	10,417,733,926
Net gain from fair value adjustments during the period	–	–	–	–	–	1,893,708,186	–	–	1,893,708,186	(85,566,044)	1,808,142,142
Net share from fair value adjustments of associates during the period	–	–	–	–	–	641,788,922	–	–	641,788,922	52,322,795	694,111,717
Total income for the period	–	–	–	–	–	2,535,497,108	–	7,125,057,651	9,660,554,759	3,259,433,026	12,919,987,785
Reversal of appropriation for long-term expansion and improvement projects	–	–	–	–	–	–	(5,000,000,000)	5,000,000,000	–	–	–
Cash dividends - ₱3.50 a share	–	–	–	–	–	–	–	(1,855,000,000)	(1,855,000,000)	–	(1,855,000,000)

(Forward)

	Attributable to Equity Holders of the Parent									Minority Interests	Total Equity
	Preferred Stock (Note 19)	**Common Stock (Note 19)**	**Additional Paid-in Capital (Note 19)**	**Deposits for Future Stock Subscription (Note 19)**	**Cost of Common Shares Held by a Subsidiary (Note 19)**	**Unrealized Mark-to-Market Gain on Investments Available for Sale (Notes 9 and 10)**	**Appropriated Retained Earnings (Note 19)**	**Unappropriated Retained Earnings (Note 19)**	**Total**		
Cash dividends received by minority interests	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	(₱2,802,770,650)	(₱2,802,770,650)
Decrease in share of minority interests	–	–	–	–	–	–	–	–	–	(319,686,115)	(319,686,115)
Balance at December 31, 2005	**₱–**	**₱5,300,000,000**	**₱23,382,709,537**	**₱–**	**(₱500,000,000)**	**₱7,038,286,318**	**₱5,000,000,000**	**₱37,221,863,387**	**₱77,442,859,242**	**₱23,615,982,476**	**₱101,058,841,718**
Balance at March 31, 2004, as previously stated	**₱1,900,000,000**	**₱2,350,000,000**	**₱23,382,709,537**	**₱54,865,261**	**(₱500,000,000)**	**₱–**	**₱10,000,000,000**	**₱17,277,512,760**	**₱54,465,087,558**	**₱18,183,727,118**	**₱72,648,814,676**
Effect of changes in accounting policies (Note 2)	–	–	–	–	–	–	–	3,755,690,412	3,755,690,412	250,624,009	4,006,314,421
Balance at March 31, 2004, as restated	1,900,000,000	2,350,000,000	23,382,709,537	54,865,261	(500,000,000)	–	10,000,000,000	21,033,203,172	58,220,777,970	18,434,351,127	76,655,129,097
Profit for the year	–	–	–	–	–	–	–	5,764,086,098	5,764,086,098	3,045,029,824	8,809,115,922
Conversion of preferred stock to common stock	(1,900,000,000)	1,900,000,000	–	–	–	–	–	–	–	–	–
Issuance of common shares upon initial public offering	–	1,050,000,000	–	–	–	–	–	–	1,050,000,000	–	1,050,000,000
Application of deposit for future stock subscription against subscribed capital stock	–	–	–	(54,865,261)	–	–	–	–	(54,865,261)	–	(54,865,261)
Cash dividends received by minority interests	–	–	–	–	–	–	–	–	–	(3,389,880,565)	(3,389,880,565)
Increase in share of minority interests	–	–	–	–	–	–	–	–	–	2,912,864,300	2,912,864,300
Balance at March 31, 2005	**₱–**	**₱5,300,000,000**	**₱23,382,709,537**	**₱–**	**(₱500,000,000)**	**₱–**	**₱10,000,000,000**	**₱26,797,289,270**	**₱64,979,998,807**	**₱21,002,364,686**	**₱85,982,363,493**

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED DECEMBER 31, 2005 AND THE YEAR ENDED MARCH 31, 2005

	December 31, 2005 (Note 28)	March 31, 2005 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱12,786,299,578**	₱11,087,103,465
Adjustments for:		
Interest income	**(2,656,700,652)**	(2,138,867,148)
Interest expense	**2,455,502,507**	3,293,615,659
Depreciation and amortization	**2,283,024,304**	2,054,307,522
Equity in net earnings of associates	**(2,079,267,626)**	(1,374,938,708)
Dividend income	**(1,077,831,319)**	(739,787,307)
Net unrealized mark-to-market gain on investments held for trading	**(418,737,382)**	–
Gain on sale of investments in shares of stock and investments held for trading	**(187,615,957)**	(1,140,377,281)
Excess of share in net assets of an associate over cost	**–**	(676,855,798)
Unrealized foreign exchange loss (gain)	**39,386,633**	(98,179,539)
Gain on sale of investments in real properties and property and equipment	**(4,884,060)**	(65,935,527)
Impairment loss	**–**	100,000,000
Operating income before working capital changes	**11,139,176,026**	10,300,085,338
Decrease (increase) in:		
Receivables	**(1,081,484,345)**	(1,664,564,421)
Merchandise inventories	**280,524,369**	(274,465,723)
Condominium and residential units for sale	**25,915,826**	(62,806,315)
Input and other prepaid taxes	**(403,777,204)**	(214,823,320)
Other current assets	**(58,637,086)**	74,713,665
Increase in:		
Accounts payable and accrued expenses	**1,697,534,917**	505,325,025
Tenants' deposits	**600,322,213**	325,051,397
Net cash generated from operations	**12,199,574,716**	8,988,515,646

(Forward)

	December 31, 2005 (Note 28)	March 31, 2005 (As restated - Note 2)
Income tax paid	**(₱2,072,925,713)**	(₱2,100,543,780)
Net cash provided by operating activities	**10,126,649,003**	6,887,971,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Investments available for sale	**(11,208,928,648)**	(5,536,116,518)
Investments in shares of stock	**(10,056,755,430)**	(2,892,830,695)
Time deposits	**1,353,471,818**	904,770,752
Other noncurrent assets	**(606,740,512)**	(582,495,409)
Land and development	**(198,407,843)**	(609,391,601)
Additions to:		
Investment properties	**(6,467,071,457)**	(1,525,608,200)
Property and equipment	**(6,254,746,645)**	(7,145,518,509)
Proceeds from sale of:		
Investments held for trading	**3,557,224,601**	2,545,858,764
Investment in real properties	**7,489,551**	225,519,126
Property and equipment	**1,945,280**	40,054,624
Investments in shares of stock	**599,940**	–
Investments available for sale	**–**	4,547,868
Interest received	**2,801,379,239**	2,178,084,633
Purchase of investments held for trading	**(2,256,262,463)**	(4,566,995,559)
Dividends received	**1,710,451,221**	824,408,523
Net cash used in investing activities	**(27,616,351,348)**	(16,135,712,201)

(Forward)

	December 31, 2005 (Note 28)	March 31, 2005 (As restated - Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Bank loans	**(₱17,868,820,510)**	(₱794,732,602)
Long-term debt	**(8,961,928,211)**	(1,677,530,810)
Availments of:		
Bank loans	**15,242,069,510**	6,555,515,000
Long-term debt	**8,847,058,986**	10,830,833,002
Interest paid	**(2,744,542,716)**	(3,052,338,772)
Dividends paid	**(872,971,058)**	(124,675,497)
Decrease in minority interests	**(767,608,564)**	(3,301,996,541)
Net proceeds from initial public offering of common shares	**–**	24,432,709,537
Collections of subscriptions receivable	**–**	195,134,739
Net cash provided by (used in) financing activities	**(7,126,742,563)**	33,062,918,056
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(310,289,414)**	53,516,616
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(24,926,734,322)**	23,868,694,337
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**36,101,669,998**	12,232,975,661
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**₱11,174,935,676**	₱36,101,669,998

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines with registered office address at Building A, SM Corporate Offices, Bay Boulevard, SM Central Business Park, Bay City, Pasay City 1300.

The Parent Company and its subsidiaries (collectively referred to as the Group) and its associates are involved primarily in shopping mall development, retail merchandising, financial services, and real estate development and tourism.

On March 22, 2005, the Parent Company completed its initial public offering (IPO) of 115,000,000 common shares (approximately 21.70% of the total outstanding common stock) at an offer price of ₱250.0 per share for total gross proceeds of ₱28,750.0 million (see Note 19).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 8, 2006.

2. Basis of Preparation

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

<u>Statement of Compliance</u>

The Group prepared its consolidated financial statements until March 31, 2005 in accordance with Statements of Financial Accounting Standards (SFAS) and International Accounting Standards (IAS).

The Group applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the consolidated financial statements, with April 1, 2004 as the date of transition. The transition to (or "adoption of") PFRS resulted in certain changes in the Group's previous accounting policies. The comparative figures for the March 31, 2005 financial statements were adjusted (or "restated") to reflect these changes in policies. An explanation of how the transition to (or "adoption of") PFRS has affected the reported financial position, financial performance and cash flows of the Group is provided below.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for financial instruments at fair value through profit or loss, investments available for sale and derivative financial instruments which have been measured at fair value.

The consolidated financial statements are presented in Philippine peso, the Group's functional and reporting currency, and all values are rounded to the nearest peso except when otherwise indicated.

<u>Changes in Accounting Policies</u>

The transition to (or "adoption of") PFRS resulted in certain changes in the Group's previous accounting policies (referred to in the following notes and explanations as "previous GAAP"). The comparative figures for the March 31, 2005 financial statements were adjusted (or "restated") to reflect the changes in policies except those relating to financial instruments. The Group availed of the exemption under PFRS 1 and applied PAS 32 and PAS 39, the standards on financial instruments, from April 1, 2005.

An explanation of the effects of the transition to (or "adoption") of PFRS is set forth in the following notes.

a. *Business combinations.* Under previous GAAP, goodwill was amortized over twenty years. Under PFRS 3, the Group ceased annual goodwill amortization and commenced testing for impairment annually from April 1, 2004. Negative goodwill representing the excess of the Group's proportionate share in the underlying net assets of the subsidiaries and associates over the carrying value of the investments was credited to retained earnings. The effect of the adoption of PFRS 3 increased the following:

	April 1, 2004 (date of transition)	March 31, 2005 (end of last period presented under previous GAAP)
Retained earnings	₱3,925,538,656	₱4,413,273,644
Minority liability	323,895,561	322,942,705

The adoption of PFRS 3 also resulted in the reversal of amortization of goodwill amounting to ₱90.9 million for the year ended March 31, 2005.

b. *Pension benefits.* Under previous GAAP, pension benefits were actuarially determined using the entry age normal method and past service cost and experience adjustments, amortized over the expected average remaining working lives of the covered employees. Under PAS 19, pension benefits are determined using the projected unit credit method. Actuarial gains and losses that exceed a 10% "corridor" are amortized over the expected average remaining working lives of participating employees and vested past service cost, recognized immediately. The effect of the adoption of PAS 19 follows:

	Increase (Decrease)	
	April 1, 2004 (date of transition)	March 31, 2005 (end of last period presented under previous GAAP)
Defined benefit liability	₱378,251,113	₱379,856,654
Deferred tax asset	119,740,732	122,579,013
Defined benefit asset	22,633,213	95,156,582
Deferred tax liability	7,242,628	30,450,106
Retained earnings	(169,848,244)	(156,648,782)
Minority liability	(73,271,552)	(59,667,778)

The adoption of the standard also resulted in a decrease in operating expenses by ₱70.9 million for the year ended March 31, 2005.

c. *Financial instruments.* Under PAS 39, financial instruments held for trading, investments available for sale and derivative financial instruments are recognized as assets or liabilities at fair value. Under previous GAAP, investments held for trading and investments available for sale were previously classified as temporary investments, investments in shares of stock, investments securities and marketable equity securities measured at cost or at the lower of aggregate cost or market. As permitted under PFRS 1, the Group applied PAS 39 from April 1, 2005. For comparative presentation purposes, certain accounts in the March 31, 2005 balance sheet were reclassified to conform to the December 31, 2005 classification without adjusting their carrying amounts. The results of the reclassifications in the March 31, 2005 balance sheet follows:

	Increase (Decrease)
Investments available for sale	₱18,627,743,947
Cash and cash equivalents	(13,357,131,599)
Investments in shares of stock	(10,588,243,412)
Investments held for trading	9,034,367,084
Investments in securities	(₱5,617,050,000)
Time deposits	3,602,639,750
Marketable equity securities	(1,702,325,770)

As required by PAS 39, long-term debt as of December 31, 2005 and March 31, 2005, amounting to ₱39,672.4 million and ₱41,225.7 million, respectively, were presented net of the related debt issuance costs amounting to ₱385.0 million and ₱439.3 million as of December 31, 2005 and March 31, 2005, respectively (see Note 18).

The adoption of PAS 39 to financial instruments as of April 1, 2005 increased (decreased) the following accounts:

Investments available for sale	₱6,677,602,959
Unrealized mark to market gain on investments held for sale	4,332,183,838
Minority liability	2,440,414,245
Investments held for trading	217,883,304
Retained earnings	154,516,466
Debt issuance costs	28,088,251
Tenants' deposits	(3,540,035)

d. *Presentation of Financial Statements.* PAS 1 provides a framework within which an entity assesses how to present fairly the effects of transactions and other events, which includes:

- Proper classification of assets and liabilities as current or noncurrent;
- Prohibition of presenting income from operating activities and extraordinary items as separate line items in the consolidated statements of income;
- Inclusion of disclosures on key sources of estimation, uncertainty and judgments which management has made in the process of applying the Group's accounting policies;
- Presentation of minority interest under the stockholders' equity in the consolidated balance sheets and in a separate schedule in the consolidated statements of income.

Certain accounts in the March 31, 2005 balance sheet prepared under previous GAAP were reclassified to conform to the December 31, 2005 balance sheet presentation.

The accompanying consolidated financial statements have adopted all the requirements of PAS 1.

e. Effect of the adoption of PFRS to the consolidated balance sheet as of March 31, 2005 (the end of last period presented under previous GAAP)

(in thousands)	Notes	Previous GAAP	Effect of Transition to PFRS	PFRS
ASSETS				
Current Assets				
Cash and cash equivalents	c	₱49,458,802	(₱13,357,132)	₱36,101,670
Marketable equity securities	c	1,702,326	(1,702,326)	–
Investments held for trading	c	–	9,034,367	9,034,367
Receivables		4,632,874	–	4,632,874
Merchandise inventories - at cost		1,638,259	–	1,638,259
Condominium and residential units for sale		86,534	–	86,534
Input and other prepaid taxes		762,736	–	762,736
Other current assets - net		215,193	–	215,193
Total Current Assets		58,496,724	(6,025,091)	52,471,633
Noncurrent Assets				
Investments available for sale	c	–	18,627,744	18,627,744
Investments in shares of stock	a, c	26,733,117	(9,253,678)	17,479,439
Property and equipment - net		11,043,213	–	11,043,213
Investment properties - net		37,758,860	–	37,758,860
Investments in securities	c	5,617,050	(5,617,050)	–
Land and development		1,344,075	–	1,344,075
Time deposits	c	10,958,600	3,602,640	14,561,240
Other noncurrent assets - net	a, b, c	1,229,265	48,391	1,277,656
Total Noncurrent Assets		94,684,180	7,408,047	102,092,227
		₱153,180,904	₱1,382,956	₱154,563,860
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Bank loans		₱12,805,765	₱–	₱12,805,765
Accounts payable and accrued expenses	b	10,866,431	3,383	10,869,814

(Forward)

(in thousands)	Notes	Previous GAAP	Effect of Transition to PFRS	PFRS
Income tax payable		₱674,103	₱–	₱674,103
Current portion of long-term debt		1,515,787	–	1,515,787
Dividends payable		104,735	–	104,735
Total Current Liabilities		25,966,821	3,383	25,970,204
Noncurrent Liabilities				
Long-term debt - net of current portion	c	39,709,910	(439,304)	39,270,606
Defined benefit liability	b	–	383,388	383,388
Deferred tax liabilities	b	109,548	46,656	156,204
Tenants' deposits		2,801,093	–	2,801,093
Total Noncurrent Liabilities		42,620,551	(9,260)	42,611,291
Minority Interests and Others	d	23,783,139	(23,783,139)	–
Stockholders' Equity				
Equity Attributable to Equity Holders of the Parent				
Capital stock		₱5,300,000	₱–	₱5,300,000
Additional paid-in capital		23,382,710	–	23,382,710
Cost of common shares held by a subsidiary		(500,000)	–	(500,000)
Retained earnings:				
Appropriated		10,000,000	–	10,000,000
Unappropriated	a, b, c	22,627,683	4,169,607	26,797,290
Total Equity Attributable to Equity Holders of the Parent		60,810,393	4,169,607	64,980,000
Minority Interests	a, b	–	21,002,365	21,002,365
Total Stockholders' Equity		60,810,393	25,171,972	85,982,365
		₱153,180,904	₱1,382,956	₱154,563,860

f. Reconciliation of income for the year ended March 31, 2005

(in thousands, except for EPS)	***Notes***	***Previous GAAP***	***Effect of transition to PFRS***	***PFRS***
Revenues	a	₱49,929,223	₱226,900	₱50,156,123
Costs and expenses	b	38,843,076	(278)	38,842,798
		11,086,147	227,178	11,313,325
Interest income		2,138,867	–	2,138,867
Interest expense		(3,293,616)	–	(3,293,616)
Foreign exchange gain		251,671	–	251,671
Amortization of goodwill and others	a	473,031	(473,031)	–
Excess of net assets over cost and others	a	–	676,856	676,856
Income before income tax		10,656,100	431,003	11,087,103
Provision for income tax				
Current		2,230,883	–	2,230,883
Deferred		26,735	20,369	47,104
		2,257,618	20,369	2,277,987
Net income		₱8,398,482	₱410,634	₱8,809,116
Attributable to:				
Equity holders of the Parent		₱5,350,170	₱413,916	₱5,764,086
Minority interests		3,048,312	(3,282)	3,045,030
		₱8,398,482	₱410,634	₱8,809,116
Earnings per common share		₱13.11	₱1.01	₱14.12

g. Effect on the cash flow statement for March 31, 2005

There are no material differences between the cash flow statement prepared under PFRS and the cash flow statement presented under previous GAAP.

h. Other adopted PFRS

The Group has also adopted the following other PFRS. Comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on equity as of April 1, 2004 and March 31, 2005.

- PAS 2, "*Inventories*";
- PAS 8, "*Accounting Policies, Changes in Accounting Estimates and Errors*";
- PAS 10, "*Events after the Balance Sheet Date*";
- PAS 16, "*Property, Plant and Equipment*";
- PAS 17, "*Leases*";
- PAS 24, "*Related Party Disclosures*";
- PAS 27, "*Consolidated and Separate Financial Statements*";
- PAS 28, "*Investments in Associates*";
- PAS 31, "*Interests in Joint Ventures*"; and,
- PAS 40, "*Investment Property.*"

Standards not yet Effective

The Group did not opt for the early adoption of the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, "*Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*" - The revised disclosures from the amendments will be included in the Group's consolidated financial statements when the amendments are adopted in 2006.

- PFRS 6, "*Exploration for and Evaluation of Mineral Resources*" - This standard does not apply to the activities of the Group.

- PFRS 7, "*Financial Instruments - Disclosures*" - The revised disclosures on financial instruments provided by this standard will be included in the Group's consolidated financial statements when the standard is adopted in 2007.

Basis of Consolidation
The consolidated financial statements of the Group include the accounts of the Parent Company and the following subsidiaries which were incorporated in the Philippines.

	Effective Percentage of Ownership		
Company	**December 31, 2005**	March 31, 2005	Principal Activities
Marketwatch Investments Co., Inc. (Marketwatch) and Subsidiaries*	**100**	100	Retail merchandising
MH Holdings, Inc. (MH Holdings) and Subsidiaries*	**100**	100	Retail merchandising
Sanford Investments Corporation and Subsidiary*	**100**	100	Retail merchandising
Mountain Bliss Resort and Development Corporation (Mountain Bliss) and Subsidiary*	**100**	100	Real estate and tourism
Henfels Investments Corporation and Subsidiary*	**99**	99	Retail merchandising
HMS Development Corporation and Subsidiaries*	**99**	99	Retail merchandising
Romer Mercantile, Inc. and Subsidiaries*	**99**	99	Retail merchandising
Primebridge Holdings, Inc. (Primebridge)*,**	**98**	60	Financial services
Intercontinental Development Corporation (ICDC)*	**97**	97	Real estate
Multi-Realty Development Corporation (MRDC)*	**91**	91	Real estate
Shoe Mart, Incorporated (Shoe Mart) and Subsidiaries	**65**	65	Retail merchandising
SM Mart, Inc.	**65**	65	Retail merchandising
Bellevue Properties, Inc. (Bellevue)*	**62**	62	Real estate
SM Development Corporation (SMDC) and Subsidiary	**53**	59	Real estate and tourism
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	**53**	53	Shopping mall development

* *The financial statements of these subsidiaries were audited by other independent auditors. All other subsidiaries were audited by the principal auditors.*

** *Incorporated and started commercial operations in November 2004.*

The accounts of Mountain Bliss, including its 93.27% interest in Manila Southcoast Development Corporation (MSDC), have been included in the December 31, 2005 and March 31, 2005 consolidated financial statements as a result of the Parent Company's 100% beneficial ownership over Mountain Bliss. As of December 31, 2005, Mountain Bliss and MSDC have not yet started commercial operations.

The consolidated financial statements include the accounts of the subsidiaries as of and for the years ended December 31, 2005 and 2004, respectively, except for the accounts of Shoe Mart which are as of December 31, 2005 and March 31, 2005 and for the periods then ended. Certain adjustments were made for the effects of significant transactions or events that occurred between the date of the subsidiaries' financial statements and the date of the consolidated financial statements.

The financial statements of the subsidiaries are prepared using consistent accounting policies.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognized in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date when the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the interests of the other entities in certain consolidated subsidiaries not held by the Group.

3. Significant Accounting Judgments and Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

A reduction in the estimated useful life of any property or equipment and investment property would increase the recorded operating expenses and decrease noncurrent assets. Total carrying values of property and equipment and investment properties amounted to ₱59,354.5 million and ₱48,802.1 million as at December 31, 2005 and March 31, 2005, respectively.

Asset Impairment. PFRS requires that an impairment review be performed when certain impairment indicators are present.

Determining the value of property and equipment, investment properties and other long-lived assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that property and equipment, investment properties and other long-lived assets are impaired. Any resulting impairment loss could have a material impact on financial condition and results of operations of the Group.

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges under PFRS.

Total carrying values of property and equipment, investment properties, investments in shares of stock and land and development amounted to ₱88,734.8 million and ₱67,625.6 million as of December 31, 2005 and March 31, 2005, respectively.

Impairment of Goodwill. Purchase accounting requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at the acquisition date. It also requires the acquirer to recognize goodwill. The Group's business acquisitions have resulted in goodwill which are subject to a periodic impairment test. The Group determines whether goodwill is impaired at least annually. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill as of December 31, 2005 and March 31, 2005 amounted to ₱255.7 million. More details are given in Note 15.

Financial Assets and Liabilities. PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would directly affect the profit and loss and equity.

Total fair value of financial assets and liabilities as of December 31, 2005 amounted to ₱75,723.6 million and ₱64,135.8 million, respectively (see Note 27).

Impairment of Available-for-Sale Financial Assets. The computation for the impairment of available-for-sale financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of available-for-sale equity instruments, the Group expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Group's investments.

The carrying values of investments available-for-sale amounted to ₱37,615.9 million and ₱18,627.7 million as of December 31, 2005 and March 31, 2005, respectively.

Deferred Income Tax Assets. The carrying amount of deferred tax assets is reviewed 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. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the projected taxable income in the following periods. Based on the projection, not all deductible temporary differences will be realized; therefore, only a portion of the Group's deferred tax assets were recognized.

Unrecognized deferred tax assets as of December 31, 2005 and March 31, 2005 amounted to ₱2,578.3 million and ₱2,204.7 million, respectively (see Note 24).

Allowance for Doubtful Accounts. The allowance for doubtful accounts relating to trade receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total amount provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used, based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are reevaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is determined.

The amount and timing of recorded expenses for any period would therefore differ based on the judgments or estimates made. An increase in the Group's allowance for doubtful accounts would increase its recorded operating expenses and decrease its current assets.

Receivables, net of allowance for doubtful accounts, amounted to ₱5,553.7 million and ₱4,632.9 million as of December 31, 2005 and March 31, 2005, respectively (see Note 8). There is no provision for doubtful accounts recorded for the periods ended December 31, 2005 and March 31, 2005.

Revenue Recognition. Real estate sales, where the Group has material obligations under the sales contract to provide improvements after the subject properties are sold, are accounted for under the percentage-of-completion method. Under this method, the gain on sale is recognized as the related obligations are fulfilled. Unrealized gross profit allocated to the unfulfilled obligations are deferred. Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on sufficiency of cumulative payments by the buyer and completion of development.

The percentage of completion is based on the estimates and reports of the contractors and project consultants. There is no assurance that use of such estimates may not result to material adjustments in future periods.

Operating Lease Commitments. The Group has entered into commercial property leases in its investment property portfolio. The entity has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Pension Cost. The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Those assumptions are described in Note 23 - *Pension Plan* and include, among others, discount rate, expected return on plan assets and rate of compensation increase. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other pension obligations.

The Group has a net cumulative unrecognized actuarial loss amounting to ₱82.0 million as of December 31, 2005 and a net cumulative unrecognized actuarial gain amounting to ₱87.6 million as of March 31, 2005 (see Note 23).

Contingencies. The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on its 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 (see Note 29 - *Other Matters*).

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated balance sheets comprise of cash in banks and on hand and short-term deposits with an original maturity of three months or less.

Receivables

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or net realizable value. Net realizable value is the selling price in the ordinary course of business, less estimated costs necessary to make the sale. Cost is determined primarily based on the first-in, first-out method.

Condominium and Residential Units for Sale

Condominium and residential units for sale are carried at the lower of cost or net realizable value. Cost includes those costs incurred for the development and improvement of the properties. Net realizable value is the estimated selling price less cost to complete and sell.

Investments in Shares of Stock of Associates

The Group's investments in shares of stock of associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statements of income reflect the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in stockholders' equity.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Therefore:

(a) goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share of the associate's profits or losses.

(b) any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investments in associates are reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Property and Equipment

Property and equipment, except for land, is stated at cost, excluding the costs of day-to-day servicing, less accumulated impairment in value, and – where subject to depreciation – depreciated over its estimated useful life. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Land is stated as cost less any impairment in value.

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

Buildings, condominium units, and improvements	10-35	years
Store equipment and improvements	5-10	years
Data processing equipment	5	years
Furniture, fixtures and office equipment	3-15	years
Machinery and equipment	5-10	years
Leasehold improvements	10-25	years or term of lease, whichever is shorter
Transportation equipment	5-10	years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

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

Investment Properties

Investment properties, except land, are measured at cost, including transaction costs; less accumulated impairment in value, and – where subject to depreciation – depreciated over its estimated useful life. 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. Land is stated as cost less any impairment in value.

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

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

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Construction in Progress

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. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income as profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

Land and Development

Land and development are stated at the lower of cost or net realizable value. Cost includes those incurred in the development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business, less costs of completion and marketing. The amount by which the cost exceeds net realizable value is accounted for as a valuation allowance and changes in the valuation allowance are included in the consolidated statements of income.

Financial Assets and Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit and loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

The Group 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.

Financial instruments are classified as a financial liability or as equity, in accordance with the substance of the contractual arrangement underlying such financial instruments. Financial instruments that contain both liability and equity elements are classified separately as financial assets, financial liabilities or equity instruments. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities are further classified into the following categories: financial asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale financial assets. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial Assets or Financial Liability at Fair Value through Profit or Loss. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management at fair value through profit or loss. Derivatives are also categorized as held at fair value through profit or loss, except those derivatives designated and considered as effective hedging instruments. Assets or liabilities classified under this category are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets and liabilities are accounted for in the consolidated statements of income. Financial assets at fair value through profit or loss are presented as "Investments held for trading." Financial instruments held at fair value through profit or loss are classified as current if they are expected to be realized within 12 months from the balance sheet date.

Held-to-Maturity Investments. Quoted nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and noncurrent assets if maturity is more than a year. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the consolidated balance sheets. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-Sale Financial Assets. Available-for-sale financial assets are those nonderivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of stockholders' equity, except for the foreign exchange fluctuations on available-for-sale debt securities and the related effective interest which are taken directly to the consolidated statements of income. These fair value changes are reported in equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the stockholders' equity is included in the consolidated statements of income. These financial assets are classified as noncurrent assets unless the Group's intention is to dispose such assets within 12 months from the balance sheet date.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statements of income as net profit or loss when the liabilities are derecognized as well as through the amortization process.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group 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 Group 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.

Where the Group 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 nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Where 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 an exchange or 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 or loss.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or 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 either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

Available-for-Sale Financial Assets. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statements of income. Reversals in respect of equity instruments classified as available-for-sale 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.

Debt Issuance Costs
Debt issuance costs (shown as deduction from the related debt) are amortized over the terms of the related borrowings using the effective interest rate method. Upon extinguishment of the debt, the related unamortized issuance costs are charged to current operations.

Provisions
Provisions are recognized when the Group 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, 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 a borrowing cost.

Business Combinations
Business combinations are accounted for using the purchase method of accounting. The cost of acquisition is the cash paid plus the fair value at the date of exchange of any other purchase consideration given in exchange for control over the net assets of the acquired company. The cost of acquisition also includes directly attributable incidental costs. The acquired identifiable assets and liabilities are initially recognized at fair value. Where the Group does not acquire 100% ownership of the acquired company, assets and liabilities are recognized at fair value to the extent of the Group's interest and the minority interest is recorded as the minority's proportion of the pre-acquisition carrying amounts of the acquired assets and liabilities.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial

recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PAS 14, *Segment Reporting.*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

Sale of Merchandise Inventories. Revenue is recognized upon billing, delivery and transfer of ownership of goods to customers.

Real Estate Sales. Revenue is generally accounted for under the full accrual method of accounting. Under this method, gross profit is recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and (c) the seller does not have a substantial continuing involvement with the subject properties. When a sale does not meet the requirements for income recognition, gross profit is deferred until those requirements are met.

Real estate sales, where the Group has material obligations under the sales contract to provide improvements after the subject properties are sold, are accounted for under the percentage-of-completion method. Under this method, the gain on sale is recognized as the related obligations are fulfilled. Unrealized gross profit allocated to the unfulfilled obligations are deferred.

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented under the "Accounts payable and accrued expenses" account in the consolidated balance sheets.

Real estate costs that relate to the acquisition, development, improvement, and construction of the condominium units are capitalized. The capitalized costs of condominium units are charged to operations when the related revenues are recognized. The costs of condominium units with contemplated construction not yet completed are determined based on actual costs incurred plus estimated costs to complete the condominium units. The estimated costs to complete the sold condominium units are shown under the "Accounts payable and accrued expenses" account in the consolidated balance sheets.

For income tax purposes, full recognition is applied when at least 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

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

Cinema Ticket Sales, Amusement and Others. Revenue is recognized upon receipt of cash from the customer.

Gain on Sale of Investments in Shares of Stock and Investments Held for Trading. Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.

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

Management Fees. Revenue is recognized when earned in accordance with the terms of the agreements.

Interest. Revenue is recognized as the interest accrues (taking into account the effective yield on the assets).

Management Fees

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

Pensions Benefits

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or if there is an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or if there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

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 until the assets are substantially ready for their intended use. Borrowing costs are capitalized when it is probable that they will result in future economic benefits to the Group. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

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

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 the balance sheet date.

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the 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. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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.

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income.

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

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term.

<u>Foreign Currency-denominated Transactions</u>
Foreign currency-denominated transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange on the balance sheet date. All foreign exchange gains and losses arising from the settlement or restatement 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.

<u>Derivative Financial Instruments</u>
The Group uses derivative financial instruments such as currency swaps and interest rate swaps to manage its risks associated with fluctuations in foreign currency and interest rates. Such derivative financial instruments are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to net profit or loss for the year.

<u>Earnings Per Common Share</u>
Earnings per common share is computed by dividing the net income for the year by the weighted-average number of issued and outstanding common shares during the year.

<u>Business Segments</u>
For management purposes, the Group is organized into three major operating businesses, namely, shopping mall development, retail merchandising, and real estate development and tourism. These divisions are the basis upon which the Group reports its primary segment information presented in Note 5 to the consolidated financial statements.

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. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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

5. Segment Information

The business segment is determined as the primary segment reporting format as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group conducts its business principally in the following segments:

- Shopping mall development
- Retail merchandising
- Real estate development and tourism

Transfer prices between business segments are set on an arm's-length basis similar to transactions with related parties. Segment revenue, segment expenses and segment result include transfers between business segments. Segment assets and segment liabilities do not include deferred tax assets and deferred tax liabilities, respectively. Those transfers are eliminated in consolidation.

Business Segment Data *(in thousands)*

December 31, 2005 (Nine Months - see Note 28)

	Shopping Mall Development	**Retail Merchandising**	**Real Estate Development and Tourism**	**Others**	**Eliminations**	**Consolidated**
Revenues	**₱11,491,252**	**₱43,237,336**	**₱768,536**	**₱8,355,886**	**(₱9,871,303)**	**₱53,981,707**
Segment results						
Income before income tax	**₱6,964,617**	**₱4,765,873**	**₱748,723**	**₱7,596,824**	**(₱7,289,737)**	**₱12,786,300**
Provision for income tax	**(1,714,896)**	**(615,288)**	**(19,132)**	**(19,250)**	**–**	**(2,368,566)**
Net income	**₱5,249,721**	**₱4,150,585**	**₱729,591**	**₱7,577,574**	**(₱7,289,737)**	**₱10,417,734**
Net income attributable to:						
Equity holders	**₱4,972,906**	**₱4,084,540**	**₱722,781**	**₱7,577,574**	**(₱10,232,743)**	**₱7,125,058**
Minority interests	**276,815**	**66,045**	**6,810**	**–**	**2,943,006**	**3,292,676**
Segment assets	**₱59,321,168**	**₱41,006,188**	**₱12,465,527**	**₱114,714,515**	**(₱58,700,151)**	**₱168,807,247**
Segment liabilities	**₱25,589,541**	**₱13,214,407**	**₱4,627,184**	**₱33,829,737**	**(₱9,708,807)**	**₱67,552,062**
Net cash flows provided by [used in]:						
Operating activities	**₱6,273,848**	**₱3,466,439**	**₱1,572,598**	**(₱2,741,598)**	**₱1,555,362**	**(₱10,126,649)**
Investing activities	**(10,728,283)**	**562,787**	**(2,658,948)**	**(12,948,288)**	**(1,843,619)**	**(27,616,351)**
Financing activities	**(1,882,045)**	**(2,809,464)**	**373,820**	**(7,095,304)**	**4,286,250**	**(7,126,743)**
Other information:						
Capital expenditures	**₱10,403,059**	**₱853,795**	**₱1,294,120**	**₱170,844**	**₱–**	**₱12,721,818**
Depreciation and amortization	**1,519,580**	**616,953**	**7,891**	**138,600**	**–**	**2,283,024**

March 31, 2005 (One Year - As restated - see Note 2)

	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
Revenues	₱10,513,012	₱40,447,499	₱754,059	₱7,603,294	(₱9,161,741)	₱50,156,123
Segment results						
Income before income tax	₱6,543,135	₱4,808,477	₱542,388	₱5,845,163	(₱6,652,059)	₱11,087,104
Provision for income tax	(1,656,927)	(583,063)	(16,100)	(21,898)	–	(2,277,988)
Net income	₱4,886,208	₱4,225,414	₱526,288	₱5,823,265	(₱6,652,059)	₱8,809,116

March 31, 2005 (One Year - As restated - see Note 2)

	Shopping Mall Development	Retail Merchandising	Real Estate Development and Tourism	Others	Eliminations	Consolidated
Net income attributable to:						
Equity holders	₱4,621,406	₱4,160,786	₱528,216	₱5,823,265	(₱9,369,587)	₱5,764,086
Minority interests	264,802	64,628	(1,928)	–	2,717,528	3,045,030
Segment assets	₱54,874,715	₱31,481,294	₱8,103,483	₱107,451,742	(₱47,564,776)	₱154,346,458
Segment liabilities	₱24,042,972	₱9,883,808	₱2,507,469	₱36,704,666	(₱4,713,623)	₱68,425,292
Net cash flows provided by (used in):						
Operating activities	₱5,581,799	₱445,076	₱508,771	₱1,857,077	(₱1,504,751)	₱6,887,972
Investing activities	(10,410,207)	2,100,498	203,276	57,462	(8,086,741)	(16,135,712)
Financing activities	4,777,733	(2,441,375)	105,947	25,150,171	5,470,442	33,062,918
Other information:						
Capital expenditures	₱5,426,300	₱1,417,518	₱1,732,353	₱94,956	₱–	₱8,671,127
Depreciation and amortization	1,318,835	564,918	4,710	165,845	–	2,054,308

6. Cash and Cash Equivalents

This account consists of:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Cash on hand and in banks (see Note 20)	**₱1,944,444,029**	₱6,942,412,573
Temporary investments (see Notes 16, 18 and 20)	**9,230,491,647**	29,159,257,425
	₱11,174,935,676	₱36,101,669,998

Cash in banks earns interest at floating rates based on daily bank deposit rates. Temporary investments are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest on the respective temporary investment rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of the temporary investments.

7. Investments Held for Trading

This account consists of:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Investments in:		
Bonds	**₱6,531,524,468**	₱9,034,367,084
Shares of stock	**2,274,834,533**	–
	₱8,806,359,001	₱9,034,367,084

The Group recognized a ₱418.7 million gain from fair value adjustments of investments held for trading as of December 31, 2005. Net gain from fair value adjustments for investments held for trading as of April 1, 2005 amounting to ₱217.9 million was credited to retained earnings as of that date.

8. Receivables

This account consists of:

	December 31, 2005	March 31, 2005
Trade:		
Tenants (see Note 20)	**₱1,507,517,125**	₱1,429,631,129
Banks, credit cards and others	**967,628,672**	944,848,362
Accrued interest (see Note 20)	**681,099,171**	825,777,758
Notes receivable (see Note 20)	**500,000,000**	–
Management fees (see Note 20)	**273,632,502**	44,562,620
Dividends	**119,033,947**	133,172,567
Others	**1,513,952,609**	1,265,202,958
	5,562,864,026	4,643,195,394
Less allowance for doubtful accounts	**9,194,052**	10,321,569
	₱5,553,669,974	₱4,632,873,825

Trade receivables are substantially noninterest bearing and are settled throughout the financial year.

Accrued interest, management fees, and dividends are normally settled throughout the financial year.

For terms and conditions relating to related party receivables, refer to Note 20.

9. Investments Available for Sale

This account consists of:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Investments in shares of stock:		
Listed	**₱31,316,957,434**	₱12,132,745,372
Unlisted (net of allowance for probable losses of ₱31,250,000)	**145,851,627**	150,403,791
Redeemable preferred shares (see Note 20)	**5,154,500,000**	5,617,050,000
Investments in bonds	**989,944,000**	720,124,784
Club shares	**8,615,000**	7,420,000
	₱37,615,868,061	₱18,627,743,947

Investments in listed shares of stock include investments in San Miguel Corporation (SMC). In March 2005, the Parent Company purchased additional 17.8 million common shares of SMC in a 10% stock rights offering by the latter. The common shares were purchased at ₱54.70 per share.

In August 2005, the Parent Company increased its stake in SMC to 11% by purchasing a total of 143 million Class A shares through a series of block sales at the stock market valued at ₱9,021.1 million.

There are no quoted market prices for the unlisted investments in shares of stock and there are no other reliable sources of their fair values, therefore, they are carried at cost.

This account also includes investments of SM Prime in redeemable preferred shares of certain companies with annual dividend rates of 6.5% to 10.46% (see Note 20). The preferred shares have preference over the issuer's common shares in the payment of dividends and in the distribution of assets in case of dissolution and liquidation. These are redeemable in 2009 at the option of the issuer. These investments are unquoted and therefore were stated at cost.

Investments in bonds were purchased from different banks with fixed interest rates ranging from 10.625% to 15.625%. These investments are peso denominated and will mature on various dates starting June 27, 2007 until September 8, 2010. As of December 31, 2005, these are carried at their respective quoted prices.

The Group recognized a ₱1,893.7 million gain from fair value adjustments of its listed investments available for sale for the period ended December 31, 2005. Net gain from fair value adjustments of its investments available for sale as of April 1, 2005 amounting to ₱4,332.2 million was recorded as a separate component of the stockholders' equity as of that date.

10. Investments in Shares of Stock

The details and movements of this account are as follows:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Investments in shares of stock of associates:		
Acquisition cost:		
Balance at beginning of year	**₱13,289,569,071**	₱7,428,246,389
Additions	**10,028,625,916**	6,579,281,200
Disposals/reclassifications	**(1,716,453,382)**	(717,958,518)
Balance at end of the period	**21,601,741,605**	13,289,569,071
Accumulated equity in net earnings:		
Balance at beginning of year, as previously stated	**2,839,898,633**	1,605,050,164
Effect of change in accounting for goodwill	**1,436,990,018**	792,124,193
Share in unrealized mark-to-market gain on investments available for sale	**206,832,656**	–
Share from effects of changes in accounting policies of associates	**(87,018,299)**	–
Balance at beginning of year, as restated	**4,396,703,008**	2,397,174,357
Equity in net earnings during the period	**2,079,267,626**	1,374,938,708
Share in unrealized mark-to-market gain on available for sale investments of associates	**694,111,717**	–
Recognition of excess of share in net assets over cost of investment	**–**	676,855,798
Dividends declared	**(618,481,282)**	(217,793,783)
Accumulated equity in net earnings of investments sold/reclassified	**(315,583,021)**	(41,304,728)
Balance at end of the period	**6,236,018,048**	4,189,870,352
	₱27,837,759,653	₱17,479,439,423

Certain investments in shares of stock held by subsidiaries amounting to ₱1,715.9 million as of April 1, 2005 were previously accounted for as investments in associates in the consolidated financial statements. These were previously carried at cost, plus the equity in net earnings and other changes in net assets of the investee from date of acquisition, less any impairment in value. These certain investments are now accounted for by the subsidiaries as investments available for sale and investments held for trading in accordance with PAS 39. This resulted in reversal of the previously recognized equity in net earnings of the associates against retained earnings amounting to ₱315.6 million as of April 1, 2005.

The Group recognized its share in the net unrealized mark-to-market gains on investments available for sale of the associates amounting to ₱694.1 million for the period ended December 31, 2005 and ₱206.8 million as of April 1, 2005. The net unrealized gain was recognized directly as a separate component of the stockholders' equity.

The associates of the Group are as follows:

Company	Effective Percentage of Ownership: December 31, 2005	Effective Percentage of Ownership: March 31, 2005	Principal Activities
Banco de Oro Universal Bank (BDO)*	**46**	46	Financial services
Sodexho Pass, Inc. (Sodexho)*	**40**	40	Retail merchandising
Asia-Pacific Computer Technology Center, Inc.*	**39**	39	Education
BDO Card Corporation (BDO Card)*	**35**	36	Financial services
Highlands Prime, Inc. (Highlands Prime)	**24**	32	Real estate and tourism
Pilipinas Makro, Inc. (Pilipinas Makro)	**30**	30	Retail merchandising
Equitable PCI Bank (EPCIB)	**25**	–	Financial services
China Banking Corporation (China Bank)	**21**	21	Financial services

** The financial statements of these associates were audited by other independent auditors. All other associates were audited by the principal auditors.*

In 2005, SMIC acquired 24.03% interest in EPCIB for a total consideration of ₱9,945.8 million. The acquisition enabled the Company to have a four member representation in the BOD of EPCIB. The Company's share in the net identifiable assets and liabilities of EPCIB had been provisionally determined as of acquisition date because the fair values to be assigned to the EPCIB's identifiable assets, liabilities or contingent liabilities can be determined only provisionally. The Company accounted for the acquisition using those provisional values and no goodwill was recognized as of acquisition date.

The Company will recognize any adjustments to these provisional values, including any goodwill, after the result of completing the initial accounting within 12 months of the acquisition date.

In May 2004, SMIC acquired an additional 13.00% interest in China Bank for ₱2,558.6 million. As a result, the investment in China Bank, which was previously carried at cost, was accounted for under the equity method starting May 2004. Negative goodwill amounting to ₱676.9 million, which is determined based on the excess of the Company's interest of the underlying fair values of the identifiable assets and liabilities over the cost of acquisition, was accounted for as a negative goodwill and recognized as income for the year ended March 31, 2005.

In November 2004, the Parent Company entered into a "Subscription Agreement with Assignment" with Primebridge whereby the Company assigned its 124.5 million shares in BDO, representing 13.71% ownership, in exchange for Primebridge's common shares of stock.

On November 26, 2004, SMIC and MRDC completed an international secondary offer of 135 million shares of common stock of BDO at an offer price of ₱21.00 per share. This secondary offer included shares held by DBS Bank Hong Kong, Ltd (DBSHK) and sold by SMIC pursuant to tag-along rights to participate in the offer exercised by DBSHK.

On January 31, 2005, SMIC acquired from DBSHK, through a special block sale, DBSHK's remaining common shares in BDO, equivalent to 5.30% of BDO's outstanding common stock, at a price of ₱22.3 per share. Following SMIC's acquisition of BDO shares from DBSHK, the Group's effective interest in BDO is 46.52%.

SMIC also acquired additional 4.00% interest in Pilipinas Makro amounting to ₱146.9 million in August 2004.

Investment in Highlands Prime amounting to ₱748.0 million are held in escrow for two years starting April 23, 2002, pending compliance with certain listing requirements. In 2005, such requirements were complied with and consequently, the related common shares of stock were released from escrow.

The detailed carrying values of the Group's investments in associates are as follows:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
EPCIB	**₱11,000,543,074**	₱647,162,406
BDO	**9,526,239,301**	9,404,279,503
China Bank	**4,592,620,396**	4,117,070,462
Highlands Prime	**1,535,887,635**	2,062,914,680
Pilipinas Makro	**1,182,469,247**	1,246,684,287
Others	**–**	1,328,085
	₱27,837,759,653	₱17,479,439,423

Condensed financial information of the following significant associates are shown below:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
	(In Thousands)	
EPCIB:		
Total resources	**₱314,530,092**	₱309,974,088
Total liabilities	**280,612,988**	267,631,492
Interest income	**19,441,548**	15,917,947
Interest expense	**8,508,932**	7,727,620
Net income	**2,403,242**	1,810,446
BDO:		
Total resources	**233,377,054**	178,830,132
Total liabilities	**213,466,339**	161,820,099
Interest income	**14,541,103**	11,147,573
Interest expense	**7,980,502**	6,187,084
Net income	**2,543,796**	1,971,774
China Bank:		
Total resources	**133,476,370**	113,859,668
Total liabilities	**113,065,473**	94,218,385
Interest Income	**10,185,528**	8,556,657
Interest expense	**4,360,276**	3,501,852
Net income	**3,039,927**	2,717,538

(Forward)

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
	(In Thousands)	
Highlands Prime:		
Total current assets	**₱858,251**	₱747,795
Total noncurrent assets	**1,949,868**	1,735,738
Total current liabilities	**232,544**	217,639
Revenue from real estate sales	**538,181**	594,899
Cost of real estate sold	**281,812**	368,290
Net income	**172,786**	126,476
Pilipinas Makro:		
Total current assets	**2,113,752**	2,816,169
Total noncurrent assets	**4,901,017**	4,326,878
Total current liabilities	**3,065,427**	2,985,620
Net sales	**13,592,272**	11,931,888
Cost of sales	**12,947,655**	11,181,131
Net income (loss)	**(208,085)**	140,879

The fair values of investments in associates which are listed in the stock exchange are as follows:

	December 31, 2005	March 31, 2005
BDO	**₱14,920,614,706**	₱13,207,547,286
EPCIB	**11,274,109,223**	768,208,232
China Bank	**7,091,577,360**	6,009,298,815
Highlands Prime	**1,249,205,260**	2,362,222,193

11. Property and Equipment

This account consists of:

	March 31, 2005	Additions	Disposals/ Transfers	December 31, 2005
Cost:				
Land and Improvements	₱9,830,554	₱–	₱–	**₱9,830,554**
Buildings, condominium units and improvements	1,469,046,488	34,089,569	(413,302,968)	**1,089,833,089**
Store equipment and improvements	2,020,156,658	363,504,894	(22,677,021)	**2,360,984,531**
Data processing equipment	1,201,600,759	80,169,018	(5,369,260)	**1,276,400,517**
Furniture, fixtures and office equipment	357,971,438	31,374,179	(6,861,598)	**382,484,019**

(Forward)

	March 31, 2005	Additions	Disposals/ Transfers	**December 31, 2005**
Machinery and equipment	₱223,212,587	₱11,959,133	(₱4,694,362)	**₱230,477,358**
Leasehold improvements	445,328,660	89,856,295	–	**535,184,955**
Transportation equipment	263,116,940	3,847,232	(3,891,768)	**263,072,404**
	5,990,264,084	614,800,320	(456,796,977)	**6,148,267,427**
Accumulated depreciation and amortization:				
Buildings, condominium units and improvements	459,270,857	86,552,463	(193,788,133)	**352,035,187**
Store equipment and improvements	766,027,025	302,171,366	(11,737,659)	**1,056,460,732**
Data processing equipment	711,948,270	165,486,846	(2,326,829)	**875,108,287**
Furniture, fixtures and office equipment	185,499,783	26,769,717	(6,207,882)	**206,061,618**
Machinery and equipment	127,894,291	15,725,736	(3,178,962)	**140,441,065**
Leasehold improvements	196,630,984	38,544,130	–	**235,175,114**
Transportation equipment	202,085,916	8,158,384	(2,940,679)	**207,303,621**
	2,649,357,126	643,408,642	(220,180,144)	**3,072,585,624**
Net book value	3,340,906,958	(28,608,322)	(236,616,833)	**3,075,681,803**
Construction in progress	7,702,306,477	9,989,995,932	(4,090,442,494)	**13,601,859,915**
	₱11,043,213,435	₱9,961,387,610	(₱4,327,059,327)	**₱16,677,541,718**

The construction in progress account includes shopping mall complex under construction of SM Prime. This mainly pertains to costs incurred for the development of the buildings and structures of "SM City Sta. Rosa," "Mall of Asia," "SM City Clark," "SM City North Edsa Annex 3" and "SM City Lipa".

Contracts with various contractors related to the construction of the abovementioned projects amounted to ₱8,081.2 million, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. Outstanding contracts as of December 31, 2005 are valued at ₱1,897.4 million.

Interest capitalized during construction amounted to ₱1,364.9 million and ₱340.6 million for the periods ended December 31, 2005 and March 31, 2005, respectively.

Portion of the construction in progress account pertaining to shopping mall complex under construction amounting to ₱3,717.3 million and ₱2,114.3 million as of December 31, 2005 and March 31, 2005, respectively, were reclassified to investment properties account upon completion of the construction.

12. Investment Properties

This account consists of:

	March 31, 2005	Additions/ Reclassifications	**December 31, 2005**
Cost:			
Land and improvements	₱13,249,832,781	₱917,920,231	**₱14,167,753,012**
Buildings and improvements	27,646,664,804	4,337,422,243	**31,984,087,047**
Building equipment, furniture and others	5,522,770,394	1,207,590,292	**6,730,360,686**
	46,419,267,979	6,462,932,766	**52,882,200,745**
Less accumulated depreciation and amortization:			
Buildings and improvements	5,681,444,545	671,682,954	**6,353,127,499**
Building equipments, furniture and others	2,378,963,216	873,132,713	**3,252,095,929**
	8,060,407,761	1,544,815,667	**9,605,223,428**
Less allowance for impairment loss	600,000,000	-	**600,000,000**
Net book value	₱37,758,860,218	₱4,918,117,099	**₱42,676,977,317**

The Group carried out annual impairment tests on its assets based on fair value less costs to sell. The fair value was determined at the cash-generating unit level and was based on an open market value, supported by market evidence in which assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards. The cash-generating unit pertains to the individual properties at their respective locations. The tests resulted in impairment charges on certain properties of the Group. Impairment charges of ₱100.0 million were recorded for the year ended March 31, 2005. Impairment reviews carried out as of December 31, 2005, however, showed that no further impairment charge is required.

If the investment properties were measured using the fair value model, the carrying amounts as of December 31, 2005 and March 31, 2005 would be as follows:

Land and improvements	₱96,994,415,886
Buildings and improvements	50,124,357,840
Building equipment, furniture and others	9,726,028,409
	₱156,844,802,135

13. Condominium and Residential Units for Sale and Land and Development

Land and development, which amounted to ₱1,542.5 million as of December 31, 2005 and ₱1,344.1 million as of March 31, 2005, include land and cost of the condominium projects.

In 2003, SMDC and Subsidiary commenced construction of its condominium project – the "Chateau Elysée". The "Chateau Elysée" is a French Mediterranean-inspired condoville in Parañaque City composed of six clusters. Cluster one of the project broke ground on September 29, 2003, with market take-up of 75% and valued at ₱309.2 million as of December 31, 2005. Construction of cluster two started in 2005, with market take-up of 35% and valued at ₱156.1 million as of December 31, 2005.

On June 30, 2004, SMDC entered into a Joint Venture Agreement (JVA) with the Government Service Insurance System (GSIS) for the development of a residential condominium project (the Project) on a parcel of land (the Property) owned by GSIS. Under the JVA, GSIS shall contribute all its rights, title and interest in and to the Property in consideration of its receipt of allocated units, which is 15% of the value of the total saleable units in the Project, in return for its contribution. In turn, SMDC shall provide financing for the implementation of the Project in consideration of its receipt of 85% of the value of the total saleable units in the Project, in return for its contribution.

On July 14, 2005, SMDC submitted to GSIS a Letter of Intent to change the Property subject for development. On September 7, 2005, the GSIS Board of Trustees approved the proposal of SMDC to change the Property subject for development. Under the amended JVA agreement, the Property will now be 14,430 square meters, more or less, a portion of the Tree Park Area of the GSIS-Baguio Convention Center.

Under the amended JVA, in the event of a decrease in the investment commitment not below the amount of ₱1,100.0 million, there will be no adjustment in the sharing or allocation percentage of both parties and the sharing agreement agreed upon based on the original JVA will be maintained at 85% and 15%. In case the reduction goes lower than ₱1,100.0 million, there shall be a corresponding adjustment in the sharing or allocation percentage of both parties, which shall be subject to the agreement of both parties.

14. Time Deposits

This account consists of:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Pledged	**₱7,963,500,000**	₱10,958,600,000
Long-term	**4,780,990,601**	3,602,639,750
	₱12,744,490,601	₱14,561,239,750

Time deposits amounting to US$240.1 million and US$265.8 million as of December 31, 2005 and March 31, 2005, respectively, will mature in October 2007 and bear an interest rate of 7.1% (net of tax) annually. A portion of these time deposits amounting to US$150.0 million and US$200.0 million as of December 31, 2005 and March 31, 2005, respectively, was used as collateral for a loan obtained by SMIC (see Note 18).

15. Other Noncurrent Assets

This account consists of:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Deposits and advance rentals	**₱826,616,217**	₱650,825,579
Deferred tax assets (see Note 24)	**269,132,258**	217,402,068
Goodwill	**255,743,567**	255,743,567
Defined benefit asset (see Note 23)	**93,937,559**	93,165,114
Others	**142,168,635**	60,518,824
	₱1,587,598,236	₱1,277,655,152

Deposits and advance rentals pertain substantially to the lease agreements entered into by SM Prime for certain parcels of land where some of its malls are constructed. The lease agreements provide that the security deposits will be applied to the future rentals. Consequently, said deposits and advance rentals are not remeasured at amortized cost.

From April 1, 2004, the date of transition to PFRS, goodwill was no longer amortized but is now subject to annual impairment testing. Based on projections made by management on cash flows arising from the subsidiaries where the goodwill relates, there were no indications that the carrying amount of goodwill had been impaired as of December 31, 2005 and March 31, 2005.

16. Bank Loans

This account consists of:

	December 31, 2005	March 31, 2005
Parent Company:		
U.S. dollar-denominated loans	**₱1,306,014,000**	₱3,287,580,000
Peso-denominated loans	**5,200,000,000**	3,200,000,000
Subsidiaries:		
U.S. dollar-denominated loans	**2,654,500,000**	4,788,985,000
Peso-denominated loans	**1,018,500,000**	1,529,200,000
	₱10,179,014,000	₱12,805,765,000

The US dollar-denominated loans amounting to US$74.6 million on December 31, 2005 and US$145.0 million on March 31, 2005 bear annual interest rates ranging from 4.50% to 5.08% and 2.70% to 3.55% for the periods ended December 31, 2005 and March 31, 2005, respectively. The peso-denominated loans bear annual interest rates ranging from 6.40% to 9.50% and 6.95% to 10.00% for the periods ended December 31, 2005 and March 31, 2005, respectively.

A portion of these loans is collateralized by chattel mortgages of merchandise inventories and property and equipment in accordance with the regulations of the Bangko Sentral ng Pilipinas (BSP). The carrying values of the collateral approximate the amounts of the bank loans.

17. Accounts Payable and Accrued Expenses

This account consists of:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Trade	**₱5,542,172,762**	₱4,785,507,826
Payable to Cambridge	**1,784,500,000**	–
Due to related parties (see Note 20)	**1,118,733,177**	894,647,086
Accrued interest	**911,611,808**	1,144,177,718
Nontrade	**893,825,471**	857,228,016
Liability for purchased land	**476,848,633**	109,510,522
Gift checks redeemable	**411,347,125**	379,467,796
Accrued IPO tax (see Note 19)	**–**	937,500,000
Accrued expenses and others	**1,467,399,299**	1,761,774,718
	₱12,606,438,275	₱10,869,813,682

Terms and conditions of the above financial liabilities:

- Trade payables are noninterest bearing and are normally settled on a 30-day term.
- Accrued expenses, liability for purchased land and other payables are noninterest bearing and usually settled throughout the year.
- Gift checks are redeemable at face value.
- On November 26, 2004, Primebridge entered into a Subscription Agreement with Cambridge Pacific Ltd (Cambridge) whereby the latter will assign its investment in 83,000,000 common shares representing 9.14% interest in BDO at ₱21.5 per share in exchange for Primebridge's 19,999,999 preferred shares. In 2004, Primebridge recorded the amounts received arising from this Subscription Agreement as deposit for future stock subscriptions amounting to ₱1,784.5 million.

  In 2005, the Subscription Agreement with Cambridge was amended wherein instead of issuing preferred shares; Primebridge will pay in cash and convert the deposit for future stock subscriptions from equity to a liability account. This liability, however, was subsequently assigned by Cambridge to MRDC. A corresponding receivable was recognized by MRDC from Primebridge of the same amount.

During the year, Primebridge reduced its amount payable to MRDC by ₱70.0 million transferring a ₱50.0 million escrow fund originally entered into by Primebridge for Cambridge and by a cash payment of ₱20.0 million.

MRDC's liability to Cambridge amounting to ₱1,784.5 million was fully paid on February 17, 2006.

For terms and conditions relating to related party payables, refer to Note 20.

18. Long-term Debt

This account consists of:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Parent Company:		
U.S. dollar-denominated:		
Five-year notes	**₱12,493,935,150**	₱16,437,900,000
Other bank loans	**–**	1,643,790,000
Peso-denominated:		
Bank loans pledged with time deposits	**7,440,000,000**	9,950,000,000
Other bank loans	**5,000,000,000**	192,857,143
Subsidiaries:		
U.S. dollar-denominated-		
Five-year syndicated loan	**7,963,500,000**	8,451,150,000
Peso-denominated:		
Five-year and seven-year fixed rate notes	**3,000,000,000**	–
Syndicated loan	**2,775,000,000**	3,550,000,000
Other bank loans	**1,000,000,000**	1,000,000,000
	39,672,435,150	41,225,697,143
Less:		
Current portion	**1,301,000,000**	1,515,787,143
Unamortized debt issuance costs (see Note 27)	**384,965,914**	439,303,517
	₱37,986,469,236	₱39,270,606,483

Parent Company

Five-Year Notes

The US$300.0 million Notes were issued on October 15, 2002 and will mature on October 16, 2007. Interest on the Notes is payable semi-annually in arrears at a fixed rate of 8.00% annually.

In August 2005, the Company retired US$64.7 million worth of Notes. The unamortized debt issuance costs pertaining to the retired portion of the Notes amounting to US$0.9 million (₱45.2 million) was charged to current operations.

Other US$ Bank Loan

Other US$ bank loan represents unsecured loan with an original amount of US$50.0 million. The loan is payable in various installments up to August 2006. Interest is set at 1.80% per annum above the three-month London Inter-Bank Offered Rate (LIBOR) for each relevant interest period. The Company prepaid this loan in August 2005.

Bank Loans Pledged with Time Deposits

The peso-denominated loans pledged with time deposits bear annual interest rates ranging from 7.41% to 12.07% and 9.04% to 12.07% for the periods ended December 31, 2005 and March 31, 2005, respectively, and are payable in installments up to October 2007. These loans are pledged with time deposits of US$150.0 million and US$200.0 million as of December 31, 2005 and March 31, 2005, respectively.

On April 18, 2005, SMIC prepaid its ₱2,500.0 million bank loans pledged with time deposits with original maturity date on October 16, 2007.

Other Peso Bank Loans

On December 31, 2005, this account pertains to the following:

Series "A" Floating rate notes	₱500,000,000
Series "B" Fixed rate notes	4,000,000,000
Series "C" Fixed rate notes	500,000,000
	₱5,000,000,000

The five-year Series A and B notes bear interest at the three-month Treasury Bill rate plus a spread of 1.00% per annum, payable quarterly in arrears and 9.95% per annum, payable semi-annually in arrears, respectively. Both series will mature on October 28, 2010 and will be redeemed at par value on that date. The seven-year Series C notes bear interest at 10.39% per annum, payable semi-annually in arrears. The Series C notes will be subject to the periodic payment of amortization starting October 28, 2006 up to October 28, 2012.

On March 31, 2005, this represents a five-year term loan with an original amount of ₱900.0 million. The loan which bears annual interest rates ranging from 8.60% to 9.20% was fully paid in October 2005.

Subsidiaries

US dollar-denominated Five-Year Syndicated Loan
The US$150.0 million unsecured loan was obtained by SM Prime on October 18, 2004 and will mature on October 18, 2009. The loan is a five-year bullet term loan which carries interest rate based on a certain percentage plus LIBOR (see Note 27).

Five-Year and Seven-Year Fixed Rate Notes
This pertains to five-year and seven-year fixed rate notes issued by SM Prime on July 8, 2005 amounting to ₱1,500.0 million and ₱1,500.0 million, respectively. The loans bear fixed interest rates of 10.535% and 11.562%, and will mature on July 8, 2010 and 2012, respectively.

Peso-denominated Syndicated Loans
This account includes a five-year syndicated term loan obtained by SM Prime on November 21, 2003 originally amounting to ₱1,700.0 million payable in equal quarterly installments of ₱106.0 million starting February 2005 up to November 2008 and bears a fixed interest rate of 8% payable quarterly. The outstanding balance of the loan as of December 31, 2005 amounted to ₱1,275.0 million.

In 2004, Consolidated Prime Development Corp. and Premier Southern Corp., both wholly-owned subsidiaries of SM Prime, obtained a five-year term loan originally amounting to ₱1,600.0 million to finance the construction of shopping malls. The five-year term loan is payable in equal quarterly installments of ₱100.0 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 SM Prime. The outstanding balance of the loan as of December 31, 2005 amounted to ₱1,500.0 million.

This also includes a five-year term loan of FARDC originally amounting to ₱1,000.0 million obtained on December 26, 2000. The loan is payable in equal quarterly installments of ₱62.0 million starting March 26, 2002 up to December 26, 2005 and bears a variable interest rate determined in accordance with the loan agreement.

As of December 31, 2005, a certain portion of investments held for trading amounting to ₱1,986.0 million was pledged to secure the loans in compliance with the requirements of the BSP. In accordance with the loan agreement, SM Prime has the option to substitute the pledged temporary investments with other assets as collateral, in accordance with the regulations of the BSP (see Note 20).

Other Bank Loans
This represents two-year and five-year unsecured loans obtained by SM Prime on December 1, 2004 amounting to ₱466.0 million and ₱534.0 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.

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

	Amount
2006	₱1,301,000,000
2007	20,768,935,150
2008	835,000,000
2009	8,807,500,000
2010	6,010,000,000
2011	10,000,000
2012	1,940,000,000
	39,672,435,150
Less unamortized debt issuance costs	384,965,914
	₱39,287,469,236

The loan agreements provide certain restrictions and requirements principally with respect to maintenance of required financial ratios and material change in ownership or control. As of December 31, 2005 and March 31, 2005, the Group is in compliance with the terms of its loan covenants.

Time deposits amounting to ₱12,744.5 million and ₱14,561.2 million (see Note 14) which will mature in October 2007 are intended to be used for payment of long-term debt maturing in 2007.

19. Stockholders' Equity

Capital Stock
The details and movements of SMIC's capital stock are as follows:

	Number of Shares			
	Authorized		Issued and Subscribed	
	December 31, 2005	March 31, 2005	**December 31, 2005**	March 31, 2005
Preferred stock, 12%, nonvoting, cumulative, participating - ₱100 par value				
Balance at beginning of the period	**–**	29,000,000	**–**	19,000,000
Less conversion of preferred stock to common stock	**–**	29,000,000	**–**	19,000,000
Balance at end of the period	**–**	–	**–**	–
Common stock - ₱10 par value				
Balance at beginning of the period	**600,000,000**	21,000,000	**530,000,000**	21,000,000
Increase in authorized capital stock	**–**	10,000,000	**–**	–
Conversion of preferred stock to common stock	**–**	29,000,000	**–**	19,000,000
Reduction in par value per share	**–**	540,000,000	**–**	360,000,000
Subscriptions during the period	**–**	–	**–**	25,000,000
Issuance of common shares upon IPO	**–**	–	**–**	105,000,000
Balance at end of the period	**600,000,000**	600,000,000	**530,000,000**	530,000,000

On January 11, 2005, the BOD approved the following:

- Increase in the authorized capital stock from ₱5,000.0 million to ₱6,000.0 million. 25% of the increase, equivalent to ₱250.0 million, was subscribed and fully paid-up. On January 24, 2005, the application for the increase in authorized capital stock was approved by the SEC.

- Change in the par value of common stock from ₱100.0 per share to ₱10.0 per share, the conversion of the 19 million issued, subscribed and outstanding preferred shares into shares of common stock and the reclassification of the 10 million unissued preferred shares into shares of common stock. On February 11, 2005, the SEC approved the latest amended Articles of Incorporation reflecting the changes in par value and the reclassification of preferred shares.

IPO
The Board of Directors of the Philippine Stock Exchange (PSE), in its regular meeting on February 9, 2005, approved the Company's application to list its common shares with the PSE. On March 11, 2005, the SEC declared the Company's Registration Statement in respect of the IPO effective and issued the "Certificate of Permit to Offer Securities for Sale" in respect of the offer shares.

On March 22, 2005, the Parent Company completed its IPO of 115,000,000 common shares, consisting of 105,000,000 new shares offered by the Parent Company and 10,000,000 shares offered by the existing stockholders, at an offer price of ₱250.0 per share for total gross proceeds of ₱28,750.0 million.

The net proceeds of the offering were intended to be used for projects related to property development, tourism and leisure, and general investments and payment of a portion of existing loans and liabilities. Direct costs incurred relative to the IPO amounting to ₱1,817.3 million were charged against the corresponding additional paid-in capital arising therefrom.

Deposits for Future Stock Subscriptions
In 2004, the stockholders remitted ₱54.9 million as deposits for future stock subscriptions. The amount was applied against subscribed capital stock in 2005.

Cost of Common Shares Held by a Subsidiary
A subsidiary holds two million common shares of the Parent Company. This is presented as "Cost of common shares held by a subsidiary" and is treated as a reduction in equity shown in the consolidated balance sheets and consolidated statements of changes in stockholders' equity.

Retained Earnings
On May 30, 2005, the BOD approved the reversal of ₱5,000.0 million previously appropriated for long-term expansion and improvement projects to unappropriated retained earnings. In addition, the BOD also approved the declaration of cash dividends of 35% of the par value or ₱3.50 per share for a total amount of ₱1,855.0 million in favor of the stockholders of record as of June 14, 2005 and paid on June 20, 2005.

20. Related Party Transactions

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at normal market prices. For the periods ended December 31, 2005 and March 31, 2005, the Group did not make any provision for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Rent

The Parent Company and a subsidiary have existing lease agreements for office and commercial space with related companies. Total rent revenues amounted to ₱1,968.5 million for the nine months ended December 31, 2005 and ₱1,860.6 million for the year ended March 31, 2005.

Management Fees

The Group pays management fees to Shopping Center Management Corporation, Leisure Center, Inc., West Avenue Theaters Corporation and Family Entertainment Center, Inc. for the management of the office and mall premises. Total management fees amounted to ₱328.6 million for the nine months ended December 31, 2005 and ₱306.3 million for the year ended March 31, 2005.

The Parent Company and a subsidiary also receive management fees from related companies for providing management and consultancy services. As consideration for the services provided, the Parent Company receives annual management fees based on a certain percentage of the related companies' net income as defined in the management contracts. Total management fees earned amounted to ₱268.5 million for the nine months ended December 31, 2005 and ₱310.8 million for the year ended March 31, 2005.

Cash Placements and Loans

The Group has certain bank accounts and cash placements that are maintained with BDO, China Bank and EPCIB, and earn interest based on prevailing market interest rates.

SM Prime has investments in preferred shares of BDO (see Note 9).

The Group also availed of bank loans and long-term debt from BDO, China Bank and EPCIB and pays interest based on prevailing market interest rates (see Notes 16 and 18).

Others

a. BDO Card issued a short-term promissory note amounting to ₱500.0 million to SMIC on December 20, 2005. The note bears interest based on three-month MART1 plus 2% spread and with maturity date on February 1, 2006. This was fully collected in February 2006.

b. BDO Capital & Investment Corp. (BDO Capital), a subsidiary of BDO, was appointed as Domestic Issue Manager and Lead Underwriter in connection with the Parent Company's IPO (see Note 19). Total underwriting fees paid to BDO Capital amounted to ₱113.5 million.

c. The Group, in the normal course of business, has outstanding advances to related companies.

The consolidated balance sheets include the following amounts resulting from the above transactions with related parties:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
	(In Thousands)	
Long-term debt (see Note 18)	**₱13,801,500**	₱11,546,500
Time deposits (see Note 14)	**12,774,491**	14,561,240
Cash and cash equivalents (see Note 6)	**9,779,572**	31,800,793
Investments available for sale (see Note 9)	**6,119,101**	2,869,700
Investments held for trading (see Note 7)	**3,484,156**	4,158,729
Rent receivable (see Note 8)	**1,462,503**	1,213,146
Bank loans (see Note 16)	**1,168,500**	1,179,200
Due to related companies (see Note 17)	**1,118,733**	894,647
Due from related companies (see Note 10)	**914,498**	243,146
Current portion of long-term debt (see Note 18)	**776,000**	766,000
Notes receivable (see Note 8)	**500,000**	–
Accrued interest receivable (see Note 8)	**380,436**	534,377
Management fees:		
Receivable (see Note 8)	**273,633**	44,563
Payable (see Note 17)	**19,759**	48,566
Accrued interest payable (see Notes 16 and 18)	**81,241**	160,708

Compensation of Key Management Personnel of the Company

The aggregate compensation and benefits to key management personnel of the Company amounted to approximately ₱47.4 million and ₱34.4 million for the nine months ended December 31, 2005 and for the year ended March 31, 2005, respectively.

21. Cost of Sales - Merchandise

This account consists of:

	December 31, 2005 (see Note 28)	March 31, 2005 (One Year)
Merchandise inventories at beginning of the period	**₱1,638,258,531**	₱1,363,792,808
Add purchases	**30,279,568,673**	28,617,304,220
Total goods available for sale	**31,917,827,204**	29,981,097,028
Less merchandise inventories at end of the period	**1,357,734,162**	1,638,258,531
	₱30,560,093,042	₱28,342,838,497

22. Operating Expenses

This account consists of:

	December 31, 2005 (see Note 28)	March 31, 2005 (One Year, As restated - see Note 2)
Personnel cost	**₱2,760,727,016**	₱2,406,124,824
Depreciation and amortization	**2,283,024,304**	2,054,307,522
Light and water	**1,715,000,276**	1,519,249,566
Rent (see Note 25)	**1,068,944,091**	1,124,543,903
Taxes and licenses	**858,071,806**	991,876,757
Outside services	**505,946,306**	445,452,613
Professional fees (see Note 20)	**469,544,961**	521,124,513
Repairs and maintenance	**272,940,521**	254,011,199
Advertising and promotions	**178,175,167**	227,004,196
Supplies	**172,025,499**	162,078,515
Insurance	**95,610,023**	110,763,279
Benefit expense (see Note 23)	**54,453,806**	71,534,836
Provision for impairment losses (see Note 12)	**–**	100,000,000
Miscellaneous	**370,576,997**	359,774,350
	₱10,805,040,773	₱10,347,846,073

23. Pension Plan

The Group has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service.

The following tables summarize the components of net benefit expense recognized by the Group in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the plan.

Net Benefit Expense (recognized in "Operating Expenses"):

	December 31, 2005	March 31, 2005
Current service cost	**₱21,457,378**	₱29,896,645
Interest cost on benefit obligation	**52,485,651**	52,936,138
Expected return on plan assets	**(22,438,008)**	(7,641,371)
Recognized actuarial gain	**(6,107,659)**	–
Net benefit expense	**₱45,397,362**	₱75,191,412

Defined Benefit Liability:

	December 31, 2005	March 31, 2005
Present value of obligation	**₱537,862,604**	₱374,897,501
Fair value of plan assets	**253,696,513**	186,983,400
Unfunded status	**284,166,091**	187,914,101
Unrecognized actuarial gain	**25,884,994**	195,474,295
Defined benefit liability	**₱310,051,085**	₱383,388,396

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

	December 31, 2005	March 31, 2005
Defined benefit obligation at beginning of year	**₱374,897,501**	₱441,134,477
Interest cost	**52,485,651**	52,936,138
Current service cost	**21,457,378**	29,896,645
Actuarial loss (gain) on obligations	**69,670,228**	(193,319,651)
Transfer from related parties	**95,995,421**	93,020,660
Benefits paid	**(76,643,575)**	(48,770,768)
Defined benefit obligation at end of year	**₱537,862,604**	₱374,897,501

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

	December 31, 2005	March 31, 2005
Fair value of plan assets at beginning of the period	**₱186,983,400**	₱63,678,089
Expected return on plan assets	**22,438,008**	7,641,371
Actual contributions	**118,734,673**	69,259,404
Transfer from related parties	**95,995,421**	93,020,660
Benefits paid	**(76,643,575)**	(48,770,768)
Actuarial gain (loss) on plan assets	**(93,811,414)**	2,154,644
Fair value of plan assets at end of the period	**₱253,696,513**	₱186,983,400

Unrecognized actuarial gain is as follows:

	December 31, 2005	March 31, 2005
Net cumulative unrecognized actuarial gain at beginning of the period	**₱195,474,295**	₱–
Actuarial gain (loss) on obligations	**(69,670,228)**	193,319,651
Actuarial gain (loss) on plan assets	**(93,811,414)**	2,154,644
Actuarial gain recognized	**(6,107,659)**	–
Net cumulative unrecognized actuarial gain at end of the period	**₱25,884,994**	₱195,474,295

Certain subsidiaries have defined benefit asset as of December 31, 2005 and March 31, 2005. The following tables summarize the components of net benefit expense recognized by Shoemart, Madison Shopping Plaza, Inc. (a subsidiary of Marketwatch) and Metro Manila Shopping Mecca, Inc. (a subsidiary of MH Holdings) as included in the consolidated statements of income and the funded status and amounts as included in the consolidated balance sheets.

Net Benefit Expense (recognized in "Operating Expenses"):

	December 31, 2005	March 31, 2005
Current service cost	**₱2,552,051**	₱3,591,318
Interest cost on benefit obligation	**4,441,128**	5,185,307
Expected return on plan assets	**(2,736,690)**	(12,433,201)
Recognized actuarial loss	**4,799,955**	–
Net benefit expense (pension income)	**₱9,056,444**	(₱3,656,576)

Defined Benefit Asset (recorded as part of "Other Noncurrent Assets"):

	December 31, 2005	March 31, 2005
Present value of obligation	**₱53,785,187**	₱42,774,674
Fair value of plan assets	**39,845,811**	28,053,053
Unfunded status	**13,939,376**	14,721,621
Unrecognized actuarial loss	**(107,876,935)**	(107,886,735)
Defined benefit asset	**₱93,937,559**	₱93,165,114

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

	December 31, 2005	March 31, 2005
Defined benefit obligation at beginning of year	**₱42,774,674**	₱40,438,824
Interest cost	**4,441,128**	5,185,307
Current service cost	**2,552,051**	3,591,318
Actuarial loss on obligations	**106,541,063**	107,653,802
Transfer to related parties	**(100,184,910)**	(110,577,169)
Benefits paid	**(2,338,819)**	(3,517,408)
Defined benefit obligation at end of year	**₱53,785,187**	₱42,774,674

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

	December 31, 2005	March 31, 2005
Fair value of plan assets at beginning of the period	**₱28,053,053**	₱103,610,012
Expected return on plan assets	**2,736,690**	12,433,201
Actual contributions	**9,828,889**	26,337,350
Transfer to related parties	**(100,184,910)**	(110,577,169)
Benefits paid	**(2,338,819)**	(3,517,408)
Actuarial gain (loss) on plan assets	**101,750,908**	(232,933)
Fair value of plan assets at end of the period	**₱39,845,811**	₱28,053,053

Unrecognized actuarial loss is as follows:

	December 31, 2005	March 31, 2005
Net cumulative unrecognized actuarial loss at beginning of the period	**₱107,886,735**	₱–
Actuarial loss on obligations	**106,541,063**	107,653,802
Actuarial loss (gain) on plan assets	**(101,750,908)**	232,933
Actuarial loss recognized	**(4,799,955)**	–
Net cumulative unrecognized actuarial loss at end of the period	**₱107,876,935**	₱107,886,735

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

	December 31, 2005	March 31, 2005
Discount rate	**14%**	12%
Expected rate of return on assets	**12%**	12%
Future salary increases	**10%**	10%

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	December 31, 2005	March 31, 2005
Investments in:		
Government securities	**51%**	61%
Other securities and debt instruments	**41%**	35%
Loans	**6%**	3%
Others	**2%**	1%
	100%	100%

24. Income Tax

The details of the Group's deferred tax assets and liabilities are as follows:

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Deferred tax assets (included under "Other noncurrent assets" account in the consolidated balance sheets):		
Defined benefit liability	**₱104,416,555**	₱118,624,391
Unamortized past service cost	**51,425,244**	41,434,464
Accrued expenses	**42,000,000**	38,400,000
Unrealized foreign exchange losses	**37,645,236**	12,440,150
Mark-to-market loss on investments held for trading	**28,100,074**	–
MCIT	**5,545,149**	691,616
NOLCO	**–**	5,811,447
	₱269,132,258	₱217,402,068

	December 31, 2005	March 31, 2005 (As restated - see Note 2)
Deferred tax liabilities:		
Capitalized interest	**₱359,759,848**	
Unrealized foreign exchange gain	**43,409,425**	12,768,712
Unamortized past service cost and defined benefit asset	**32,677,119**	30,450,106
Unrealized gross profit on sale of real estate	**19,411,701**	2,466,411
Others	**10,216,876**	1,526,420
	₱465,474,969	₱156,204,399

The Group's consolidated deferred income tax assets as of December 31, 2005 and March 31, 2005 have been reduced to the extent that part or all of the deferred tax assets are no longer probable to be utilized. There are no deferred tax assets recognized on the temporary deductible differences of the Parent Company and a certain subsidiary as it is not probable that sufficient taxable profit will be available when these deductible temporary differences will reverse.

The components of deductible temporary differences of certain balance sheet items and the carryforward benefits of unused MCIT and NOLCO, for which no deferred tax assets have been recognized in the consolidated balance sheets, are as follows:

	December 31, 2005	March 31, 2005
NOLCO	**₱6,099,214,846**	₱5,560,342,096
Impairment loss	**600,000,000**	600,000,000
Net unrealized foreign exchange loss	**369,930,412**	418,492,185
MCIT	**76,302,054**	72,881,648
Allowance for doubtful accounts	**67,774,739**	68,289,339
Defined benefit liability	**11,718,071**	14,678,642
	₱7,224,940,122	₱6,734,683,910

As of December 31, 2005, the Group's MCIT and NOLCO are as follows:

Date Incurred	Carryforward Benefit Up To	MCIT	NOLCO
March 31, 2003	March 31, 2006	₱14,664,574	₱1,213,097,740
December 31, 2003	December 31, 2006	6,651	15,515,388
March 31, 2004	March 31, 2007	20,260,694	1,080,613,119
December 31, 2004	December 31, 2007	208,615	14,672,694
March 31, 2005	March 31, 2008	21,897,366	3,236,443,155
December 31, 2005	December 31, 2008	24,809,303	538,872,750
		₱81,847,203	₱6,099,214,846

The reconciliation between the statutory tax rates and the Group's effective tax rate on income before income tax is as follows:

	December 31, 2005 (see Note 28)	March 31, 2005 (One Year, As restated - see Note 2)
Statutory income tax rates	**33%**	32%
Add (deduct) income tax effects of reconciling items:		
Interest income subjected to final tax	**(7)**	(6)
Equity in net earnings of associates	**(5)**	(5)
Dividend income exempt from tax	**(3)**	(2)
Nondeductible interest expense	**3**	2
Net unrealized mark-to-market gain on investments held for trading	**(1)**	–
Gain on sale of shares of stock	**–**	(4)
Others	**(4)**	(1)
Change in unrecognized deferred tax assets	**3**	4
Effective income tax rates	**19%**	20%

The deferred income taxes and the provision for current income tax include the effect of the change in tax rates. Under Republic Act (RA) No. 9337 (the Act), regular corporate income tax rate for domestic corporations and resident and nonresident foreign corporations is increased to 35% (from 32%) beginning November 1, 2005 and the rate will be reduced to 30% beginning January 1, 2009. The regular corporate income tax rate shall be applied by multiplying the number of months covered by the new rate with the taxable income of the corporation during the year, divided by 12.

25. Lease Agreements

The lease agreements of SM Prime and its subsidiaries with their tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, who are granted initial lease terms of five years, renewable on an annual basis thereafter. Tenants pay either a fixed monthly rent, which is calculated by reference to 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.

SM Prime and its subsidiaries also lease certain parcels of land where some of their malls are constructed. The terms of the lease shall be for a period ranging from 25 to 50 years, renewable for the same period under the same terms and conditions. Rental payments generally are computed based on a certain percentage of the gross rental income or a certain fixed amount whichever is higher.

26. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise of bank loans and overdraft, debentures, purchase contracts, and cash and temporary investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk as of December 31, 2005.

	Below 1Year	1-2 Years	2-3 Years	3-5 Years	Over 5 Years	Total In Dollars	Total In Pesos	Total (Net of Debt Issuance Costs) In Dollars	Total (Net of Debt Issuance Costs) In Pesos	Fair Value In Dollars	Fair Value In Pesos
					(In Millions)						
Liabilities:											
Long-term Debt											
Fixed Rate:											
US$ five-year Notes	–	235.3	–	–	–	235.3	12,493.9	232.8	12,361.9	239.5	12,714.2
Interest rate	–	8.00%	–	–	–						
Peso Loans:											
Series "B" fixed rate note	–	–	–	–	4,000.0	75.3	4,000.0	75.3	3,995.5	80.8	4,292.2
Interest rate	–	–	–	–	9.95%						
Series "C" fixed rate note	10.0	10.0	10.0	10.0	460.0	9.4	500.0	9.3	495.5	10.6	560.0
Interest rate	10.39%	10.39%	10.39%	10.39%	10.39%						
Fixed rate Notes	–	–	–	–	3,000.0	56.5	3,000.0	55.9	2,965.6	57.4	3,046.6
Interest rate	–	–	–	–	11.56%						
Syndicated Loans	825.0	825.0	825.0	300.0	–	52.3	2,775.0	51.8	2,750.1	54.7	2,905.1
Interest rate	8.0% to 9.66%	8.0% to 9.66%	8.0% to 9.66%	8.0% to 9.66%	–						
Other Bank Loans	466.0	–	–	534.0	–	18.8	1,000.0	18.8	996.8	24.3	1,289.9
Interest rate	10.87%	–	–	12.54%	–						
Variable Rate:											
US$ five-year Syndicated Loan	–	–	–	150.0	–	150.0	7,963.5	147.3	7,817.9	147.3	7,817.9
Interest rate	–	–	–	5.31% to 12.75%	–						
Series "A" floating rate note	–	–	–	–	500.0	9.4	500.0	9.3	495.5	9.3	495.5
Interest rate	–	–	–	–	1% over 3-month T-bill rate						
Loan with pledged time deposits	–	7,440.0	–	–	–	140.1	7,440.0	140.1	7,440.0	140.1	7,440.0
Interest rate	–	7.41% to 12.07%	–	–	–						

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.

Repricing of floating rate financial instruments is mostly done in intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of the instrument. Financial instruments that are not subject to interest rate risk were not included in the above tables.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep between 60% and 70% of its borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. On December 31, 2005, after taking into account the effect of interest rate swaps, approximately 65% of the Group's borrowings are kept at a fixed rate of interest.

Foreign Currency Risk

The Group has recognized in its consolidated statements of income foreign exchange gain of ₱103.7 million on its net foreign-currency denominated assets and liabilities for the period ended December 31, 2005 as compared with a ₱251.7 million revaluation foreign exchange gain for the year ended March 31, 2005. This resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Peso to US Dollar
March 31, 2003	₱53.53
March 31, 2004	56.14
March 31, 2005	54.94
December 31, 2005	53.09

As of December 31, 2005, approximately 49.0% (64.1% on March 31, 2005) of the Group's total consolidated bank loans and debt were denominated in US dollars. Thus, a weakening of the Philippine peso against the US dollar will increase both the principal amount of the foreign currency-denominated debt and interest expense on the Group's debt in Philippine peso terms.

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

Commodity Price Risk

The Group's exposure to price risk is minimal.

Credit Risk

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, investments held for trading, available for sale financial assets, time deposits and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Liquidity Risk

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of its liquidity risk management program, the Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, and debt capital and equity market issues.

27. Financial Assets and Liabilities

The Group's financial assets and liabilities are recognized initially at fair value. Transaction costs (debt issuance costs) are included in the initial measurement of all financial assets and liabilities except those classified as financial instruments measured at fair value through profit and loss. Subsequent to initial recognition, assets and liabilities are either valued at amortized cost using the effective interest rate method or at fair value depending on classification.

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2005. There are no material unrecognized financial assets and liabilities as of December 31, 2005.

	Carrying Value	Fair Value
Current financial assets:		
Cash and cash equivalents	₱11,174,935,676	₱11,174,935,676
Investments held for trading	8,806,359,001	8,806,359,001
Receivables	5,553,669,974	5,553,669,974
Total current financial assets	25,534,964,651	25,534,964,651
Noncurrent financial assets:		
Investments available-for-sale	37,615,868,061	37,615,868,061
Time deposits	12,744,490,601	12,572,743,910
Total noncurrent financial assets	50,360,358,662	50,188,611,971
Total financial assets	₱75,895,323,313	₱75,723,576,622
Current financial liabilities:		
Bank loans	₱10,179,014,000	₱10,179,014,000
Accounts payable and accrued expenses	12,606,438,275	12,606,438,275
Current portion of long-term debt	1,301,000,000	1,301,000,000
Dividends payable	1,086,764,312	1,086,764,312
Total current financial liabilities	25,173,216,587	25,173,216,587
Long-term debt - net of current portion	37,986,469,236	38,962,564,659
Total financial liabilities	₱63,159,685,823	₱64,135,781,246

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.

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

Investments held for trading and available for sale: The fair values are the quoted market prices of the instruments at balance sheet date.

Time deposits: Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of investments.

Bank loans: The carrying value approximates fair value because of recent and regular repricing (i.e., quarterly) based on market conditions.

Accounts payable, accrued expenses and dividends payable: The carrying value reported in the consolidated balance sheets approximates the fair value 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:	
US $ five-year Notes	Quoted market price.
Other loans in all other currencies	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans.
Variable Rate Loans	The carrying value approximates fair value because of recent and regular re-pricing (i.e., quarterly) based on market conditions.

Foreign currency and interest rate swaps: The fair values were computed as the present value of estimated future cash flows.

Derivative Financial Instruments: The Group's derivative financial instruments are accounted for as transactions not designated as hedges and, as such, any gains or losses arising from the changes in fair value are recognized directly to profit or loss for the period.

Foreign Currency Swaps and Interest Rate Swaps

To address the Group's exposure to market risk for changes in interest rates primarily to long-term floating rate debt obligations and manage its foreign exchange risks, the Group entered into interest rate swaps and foreign currency swaps.

In 2004, SM Prime entered into foreign currency swap agreements with aggregate notional amount of US$70.0 million and weighted average swap rate of ₱56.31 to US$1. Under these agreements, SM Prime effectively swaps the principal amount and interest of these US dollar-denominated loans into Philippine peso-denominated loans with payments up to October 2009.

SM Prime entered into US dollar interest rate swap agreements with aggregate notional amount of US$80.0 million. Under these agreements, SM Prime effectively swaps these floating rate US dollar-denominated loans into fixed rate loans with semi-annual payment intervals up to October 2009.

In 2005, SM Prime also entered into Philippine peso interest swap agreements with aggregate notional amount of ₱3,750.0 million. Under these agreements, SM Prime effectively swaps these fixed rate peso-denominated loans into floating rate loans with semi-annual payment intervals up to July 2012.

As of December 31, 2005, the fair values of the swaps amounted to ₱457.0 million.

In 2005, SMIC also entered into short-term foreign currency swaps from three days up to three months with banks to hedge against foreign exchange rate risks. The mark-to-market gain of the outstanding foreign currency swaps with a notional amount of ₱106.1 million as of December 31, 2005 amounted to ₱0.1 million.

SMIC also has an interest rate swap agreement with BDO for a notional amount of ₱795.1 million. Under this agreement, SMIC will pay BDO a floating rate based on three-month MART plus 25 basis points on a quarterly basis. In return, SMIC will receive a fixed interest of 10% every quarter. The agreement will mature in July 2010.

The difference between the fair value and the revaluation gain of these swaps is not significant.

28. Change in Accounting Period

On August 13, 2005 and September 6, 2005, the SEC and the Bureau of Internal Revenue, respectively, approved the change in the Parent Company's accounting period from a fiscal year ending March 31 to December 31. The amounts presented in the December 31, 2005 consolidated statements of income, changes in stockholders' equity and cash flows, and related notes are for nine months and, accordingly, are not comparable with those in the previous fiscal years, including the year ended March 31, 2005.

29. Other Matters

a. On January 25, 2006 and February 14, 2006, Primebridge, a stockholder of BDO owning 22.08% of total outstanding shares as of December 31, 2005, offered and sold 9,056,000 global depositary receipts (GDRs) each representing 20 shares of BDO's common stock with a par value of ₱10 per share. The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1993 (the "Securities Act") and an offering outside the United States in reliance on Regulation S under the Securities Act. The offered price for each GDR is US$12.70. As part of the offering, Primebridge shall, while remaining as the registered holder of BDO shares underlying the GDRs, transfer all rights and interests in BDO shares underlying the GDRs to the depository and the holders of the GDRs are entitled to receive dividends paid on the shares. However, GDR holders will have no voting rights or other direct rights of a shareholder with respect to BDO shares under GDRs.

b. On December 13, 2005, the BOD approved SMIC's acquisition of 100% of the outstanding common shares of Supervalue, Inc. and 81% of the outstanding common shares of Super Shopping Market, Inc. in exchange for SMIC common shares with a valuation based on the 30-day volume weighted average price of SMIC.

   As of March 8, 2006, the other terms of the acquisition have not been finalized.

c. In August 2005, BDO, jointly with SMIC, acquired the shares of EPCIB and Equitable Card Network, Inc. (ECNI) totalling of 24.4% interest in EPCIB and a 10% interest in ECNI (see Note 10). BDO's acquisition cost of the shares of stock of EPCIB amounted to ₱1,400.0 million representing 3.4% of EPCIB's total outstanding shares while the acquisition cost for the shares of stock of ECNI amounted to ₱600.0 million representing 10% of ECNI's total outstanding shares.

   On January 6, 2006, BDO submitted an offer letter to the BOD of EPCIB proposing a merger of equals between BDO and EPCIB with BDO as the surviving entity. The merger is proposed to be effected by a swap of shares with the ratio of the swap, determined at the option of the BOD of EPCIB, at: (a) 1.6 shares for each share of EPCIB or (b) based on the relative book values of both banks adjusted for comparability as determined by an independent accounting firm using PFRS.

d. On May 6, 2005, BDO and United Overseas Bank Philippines (UOBP) and United Overseas Bank Limited (UOBL) signed a Memorandum of Agreement (MOA) whereby BDO acquired the 66 branches of UOBP for a total consideration of ₱600.0 million. As part of the MOA, BDO assumed the deposit liabilities of UOBP in consideration of an equivalent amount of related assets of UOBP, including cash payment in case the assets would be lower than the assumed liabilities. Also under the MOA, the ₱600.0 million payment of BDO will be used by UOBL to subscribe for the Bank's shares of common stock valued at ₱26.75 per share, or equivalent to 22,429,906 shares. On December 19, 2005, the transfer of the assets including cash payment made by UOBP to fully offset the assumed liabilities by the BDO was carried out.

   The UOBP acquisition was approved by the BSP on September 8, 2005 while the shares to be subscribed by UOBL were subsequently issued in February 2006.

e. On April 12, 2005, certain individuals filed their complaints with the SEC for the Company's nondisclosure in its Registration Statement in connection with its IPO (see Note 10) of certain legal cases for the nullification of titles to Hacienda Looc properties owned by a subsidiary.

   On September 30, 2005, the Corporate Finance Division of the SEC dismissed the said case for lack of merit, and subsequently, the complainant appealed the SEC Order dismissing said case to the Court of Appeals (CA). However, on December 28, 2005, the complainants filed a Notice of Withdrawal of the appeal with the CA.

f. BDO signed a letter agreement dated December 30, 2003 with the Social Security System (SSS) regarding the sale of the latter's investment of approximately 25.8% ownership of EPCIB.

BDO and SSS committed to execute a final Purchase Agreement on or before September 30, 2004. SSS failed to execute the Share Purchase Agreement within the prescribed period and BDO filed an action for specific performance with the Regional Trial Court of Mandaluyong to compel SSS to comply with its obligations under the letter agreement with BDO dated December 30, 2003.

SSS announced that the EPCIB shares would be subjected to a public auction scheduled on October 30, 2004 under the terms of a Swiss Challenge whereby BDO will be given the right to match the highest bid price. The auction has been put on hold by the Supreme Court. As of December 31, 2005, no consideration has been tendered by BDO.

g. On July 9, 2002, the Supreme Court promulgated a decision in the case of Francisco I. Chavez v. Public Estates Authority and Amari Coastal Bay Development Corporation (G.R. No. 133250). In essence, this decision stated that Government-reclaimed lands form part of the public domain and consequently cannot be acquired by private corporations without violating the Philippine Constitution. The decision in the Amari Case became final and executory on February 18, 2004, as certified by the Supreme Court's clerk of court on May 5, 2004. No member of the Group is involved in the Amari Case.

Shoe Mart currently owns 60 hectares of reclaimed land along the coast of Manila Bay at the SM Central Business Park. Management believes that the circumstances pertaining to Shoe Mart's acquisition of the reclaimed land is different from those in the Amari Case. Shoe Mart's acquisition was upheld in 1995 by the Court of Appeals, which decision has long become final and executory, whereas in the Amari Case, no final decision adjudicating the Freedom Islands to Amari has ever been rendered. In addition, unlike the Amari Case, titles to a great majority of lots comprising the reclaimed land are already registered under Shoe Mart's name.

h. On June 27, 2002, BDO entered into a US$20.0 million convertible loan agreement with the International Finance Corporation (IFC). IFC has the option to convert a portion of the loan into common shares of the BDO commencing two years after the date of the agreement for ₱16.70 per share.

On February 11, 2005, BDO's Board of Directors approved the conversion of US$10.0 million convertible loan from IFC, qualified as Tier 2 capital, into 31,403,592 common shares of BDO based on the conversion price of ₱16.70 per share and a foreign exchange rate of ₱52.44 to a dollar. The PSE subsequently approved the listing of the converted shares.

i. In 1988, the Parent Company acquired the former Baguio Pines Hotel properties from the Development Bank of the Philippines (DBP) through a public bidding and purchased the Taal Vista Lodge (the Lodge) from the Taal & Tagaytay Management Corp., the original purchaser of the Lodge from the DBP.

Previously, in 1984, certain minority stockholders of Resort Hotel Corp. (RHC), the previous owner of the former Baguio Pines Hotel properties and the Lodge filed with the Regional Trial Court of Makati a derivative suit against the DBP questioning the foreclosure by the DBP of these properties. The Parent Company was impleaded as a party defendant in 1995. The Regional Trial Court of Makati voided the foreclosure by the DBP on the mortgaged properties.

DBP and the Parent Company have appealed the RTC's decision to the Court of Appeals. The appeal is still pending. DBP believes that all the legal requirements on the foreclosure of the mortgages were complied with and the said foreclosures of mortgages are legal and binding. Management also believes that it had no notice of any infirmity that would void its title to the properties.

30. Earnings Per Common Share (EPS) Computation

	December 31, 2005 (see Note 28)	March 31, 2005 (As restated - see Note 2)
Net income attributable to equity holders of the Parent	**₱7,125,057,651**	₱5,764,086,098
Divided by weighted average number of common shares outstanding for the period	**530,000,000**	408,111,111
Earnings per common share	**₱13.44**	₱14.12*

**The EPS would have been ₱11.29 assuming the 105,000,000 IPO shares were retroactively given effect at the beginning of the year ended March 31, 2005.*

The weighted average number of shares for the year ended March 31, 2005 was retrospectively adjusted to account for the effect of the change in par value of common stock from ₱100.0 per share to ₱10.0 per share and the conversion of preferred stock to common stock (see Note 19).

VALUE

SMIC's nationwide brand equity has been earned over the years through its steadfast dedication to providing premium value for its stakeholders—as such, the company develops properties such as Hamilo Coast with utmost concern for ecological as well as financial value. At SM Investments Corporation, responsibility and integrity are values equally well worth cultivating.

SM Foundation

The SM Group's consistent growth continues to benefit its home country by accelerating development in infrastructure, local commerce, and employment.

Through the SM Foundation, SMIC takes a more active hand in corporate social responsibility in three particular areas of interest:

Education

SM's most visible endeavor in the realm of education this year was its involvement in **National Disability Week**, during which over 300 differently-abled persons attended livelihood job fairs and workshops at select SM Supermalls. Skills taught and demonstrated included computer operation, songwriting, and special care strategies for parents of children with disabilities. SM also actively participated in October's **Elderly Week** celebration, highlighting the rights, welfare, and importance of Filipino senior citizens in nation-building.

The Group continued to sponsor deserving underprivileged students through the **SM Foundation College Scholarship Program**; donate buildings, furniture, and equipment for public schools through the **Adopt-a-School program**; and provide the infrastructure needed for **Educational TV** at various public elementary schools.

Health

At the re-launch of the SM Makati department store, the SM Foundation held a **Mask Auction**, at which the sale of decorative masks designed by well-known artists and celebrities raised over Php2.5 million for the benefit of the Dr. Jose Fabella Memorial Hospital, a general public hospital in downtown Manila. SM implemented the complete renovation of the hospital's pediatric ward and pediatric intensive care unit, further providing much-needed equipment and constructing the latest of its many **Pediatric Activity Centers**.

Other ongoing health initiatives include the **SM Hospice Units**, which are hospital wards renovated and refurbished by the Foundation for the care

and comfort of terminally-ill patients; and **Centers for the Elderly**, which provide senior citizens with centralized venues for information, recreation, and livelihood activities. The *Gamot Para sa Kapwa* program likewise continued in its efforts to provide free medical, dental, and associated services, as well as collecting and distributing donated medicines for the less-fortunate.

Outreach

Disaster relief program **Operation: *Tulong* Express** was highly active once again this year, delivering relief goods, supplies, and personnel for the assistance of some 2,000 families affected by the precipitous flash flood in Oriental Mindoro.

Mall-based outreach also provided substantial support, with reward incentives encouraging shoppers to donate toys and cash for underprivileged children at Christmas through the **Share-A-Toy** program; and books for public schools and libraries through the **Donate-A-Book** program. **Donate-A-Book** further established several public reading centers in local communities, while the **Share Your Extras** program distributed donated clothes, food, furniture, houseware, and more to an unprecedented 13,385 less-fortunate families.
clothes, food, furniture, houseware, and more to an unprecedented 13,385 less-fortunate families.

2005 achievements

- ₱2,599,593.82 raised for hospital renovation
- 54,540 individuals helped through Share Your Extras
- 25,763 patients treated in 29 free medical missions
- 108,988 books donated to 1,090 schools and libraries
- 300 final job interviews facilitated for disabled persons
- Total number of Scholar graduates reached 800, with current number of Scholars at 500
- Donation of 10 School buildings to 10 public elementary schools
- Donation of 60 Educational TV infrastructure to 60 public elementary schools
- over 10,000 children given Christmas toys and gifts
- disaster relief for over 2,000 families in the wake of flash flood

Board of Directors

Henry Sy, Sr.
Chairman

Teresita T. Sy
Vice-Chairman

Henry Sy, Jr.
Vice-Chairman

Harley T. Sy
Director

Jose T. Sio
Director

Gregory L. Domingo
Director

Vicente S. Perez, Jr.
Director

Executive Officers

Harley T. Sy
President

Hans T. Sy
First Executive Vice-President

Herbert T. Sy
First Executive Vice-President

Jose T. Sio
Second Executive Vice-President
and Chief Financial Officer

Josefino C. Lucas
Executive Vice-President

Elizabeth T. Sy
Treasurer

Corazon I. Morando
Senior Vice-President
Legal and Corporate Affairs

Arthur A. Sy
Assistant Vice-President
Legal and Corporate Affairs

Emmanuel C. Paras
Corporate Secretary

Epitacio B. Borcelis, Jr.
Assistant Corporate Secretary

Corporate Information

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Pacis & Reyes
Ponce Enrile Reyes & Manalastas (Pecabar)
SyCip, Salazar, Hernandez and Gatmaitan Law Offices
Villaraza & Angangco Law Offices

External Auditor
SyCip, Gorres, Velayo & Co. CPAs

Bankers
ABN AMRO Bank
Banco de Oro Universal Bank
Bank of the Philippine Islands
China Banking Corporation
Citibank, N.A.
Deutsch Bank, A.G.
Equitable PCIBank
Hongkong and Shanghai Bank
ING Bank, N.V.
JP Morgan Chase Bank, N.A.
Metropolitan Bank & Trust Company
Standard Chartered Bank

Stockholder Inquiries
SM Investments Corporation common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

Stock Transfer Services, Inc.
5th floor, Phinma Plaza
19 Plaza Drive, Rockwell Center
Makati City 1200 Philippines
Tel: (632) 898-7611 / 898-7622

SEC Form 17-A
The financial information in this report, in the opinion of the Management, substantially conforms with the information required in the 17-A Report submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request addressed to the Office of the Corporate Secretary.

Institutional Investor Inquiries
SM Investments Corporation welcomes inquiries from analysts, the financial community, and institutional investors. Please contact:

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