# AYALA LAND, INC.

31st Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226
Telephone Number: (632) 848-5643

AYALA LAND
HOMESTARTER
BOND

## ₱252,000,000 5.0% Bonds
## Issue Price: 100% of Face Value

Ayala Land, Inc. ("Ayala Land" or the "Issuer" or the "Company") is proposing to issue Bonds (the "Bonds") in the aggregate principal amount of up to ₱252,000,000. The Bonds shall be issued monthly in a series for thirty six (36) months commencing on February 16, 2006, or such other date as may be agreed by the Issuer and the Issue Manager and Underwriter. All Series of the Bonds shall mature on the third anniversary of the Initial Issuer Date. Each series of the Bonds will bear interest on its principal amount from and including the Issue Date thereof, at a fixed rate of 5.0% per annum. Interest will not be compounded and shall be payable on Maturity Date, less the amount of any applicable withholding taxes.

Each series of the Bonds will be represented by a certificate of indebtedness to be issued and registered in the name of Bank of the Philippine Islands – Asset Management and Trust Group as trustee for the Bondholders. The beneficial interests of each Bondholder in and to the Bonds or series thereof will be shown on and recorded in, and trading thereof will be effected through, the Register of Bondholders maintained by Standard Chartered Bank as registrar. The Bonds shall be issued and traded in denominations of ₱5,000 and in integral multiples thereof. Trading of the Bonds will be done over-the-counter.

The Bonds shall be offered to the public (the "Offer") at face value through the Underwriter named below subject to certain conditions in the Issue Management and Underwriting Agreement executed between the Issuer and the Issue Manager and Underwriter.

*Issue Manager and Underwriter*

**BPI Capital Corporation**

THE DATE OF THIS PROSPECTUS IS JANUARY 18, 2006

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THE ₱252,000,000 AYALA LAND HOMESTARTER BONDS OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

This Offering is primarily targeted to benefit the low to middle-income market segment. Ayala Land's objective is to encourage this segment to save sufficient funds to enable them to own real estate property in the future. To make the Bonds more affordable to the target market, it shall be issued in a series and the different series of the Bonds shall be issued against monthly payments by the Bondholders over a period of three (3) years. Since this is a debt issuance, holders of the Bonds shall not be entitled to any dividends from the Issuer.

Ayala Land expects that the initial net proceeds of the Offering will amount to approximately ₱5,000,000 after fees and expenses. Thereafter, Ayala Land expects to receive approximately ₱7,000,000 a month over the next 35 months. Given the amount of the proceeds expected to be received by the Issuer on a monthly basis, such proceeds are not projected to pay for any specific transaction but instead shall be used by Ayala Land for general corporate purposes. For its services as Underwriter, BPI Capital will receive up to 2.0% of the aggregate issue amount. Such amount shall be inclusive of underwriting and selling fees.

Ayala Land confirms that this Prospectus contains all information relating to the Bonds which is, in the context of the issue of the Bonds, material (including all information required by the applicable laws of the Republic of the Philippines). There are no other facts the omission of which would make any statement in this Prospectus misleading in any material respect. Ayala Land confirms that it has made all reasonable inquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. Ayala Land, however, has not independently verified any such publicly available information, data or analysis.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offering shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Issue Manager/Underwriter does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus.

The contents of this Prospectus are not to be considered as legal, business or tax advice. Each prospective purchaser of the Bonds receiving a copy of this Prospectus acknowledges that he has not relied on the Issue Manager/Underwriter in his investigation of the accuracy of such information or in his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Bonds.

No dealer, salesman or other person has been authorized by Ayala Land and the Issue Manager/Underwriter to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by Ayala Land or the Issue Manager/Underwriter.

**ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT.**

Jaime I. Ayala
President

SUBSCRIBED AND SWORN TO BEFORE ME this 18th day of January 2006, affiant exhibiting to me his Community Tax No. 24801716 issued at Makati City on January 10, 2006.

Doc No. **276**;
Book No. **57**;
Page No. **V**;
Series of 2006

**YAZMIN M. FACTORAN-ESTRELLA**
**Notary Public for Makati City**
**Appt. # No. M-527 until 12-31-06; Roll # 42900**
**PTR # 9437591; 01/05/05 ; Makati City**
**IBP 634058 ; 01/06/05 ; Makati City**
**Tower One & Exchange Plaza, Ayala Tri.**
**Ayala Ave., Makati City 1226 M. M, Phils.**

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# FORWARD-LOOKING STATEMENTS

This Prospectus contains certain "forward-looking statements". These forward-looking statements generally can be identified by use of statements that include words or phrases such as Ayala Land or its management "believes," "expects," "anticipates," "intends," "plans," "foresees" or other words or phrases of similar import. Similarly, statements that describe Ayala Land's objectives, plans or goals are also forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations of Ayala Land include, among others:

*General Economic and Political Conditions*

- changes in Philippine and international interest rates
- changes in political conditions in the Philippines
- changes in foreign exchange control regulations in the Philippines
- changes in the value of the Peso

*Conditions of the Real Estate Industry*

- increasing competition in the Philippine real estate industry
- changes in laws and regulations that apply to the Philippine real estate industry

*Factors Affecting Ayala Land's Operations*

- Ayala Land's ability to increase its market share in the various segments of the Philippine real estate market
- demand for Ayala Land's projects in the Philippines
- Ayala Land's ability to enter into various financing programs
- problems that Ayala Land may encounter in its development projects
- Ayala Land's ability to manage changes in the cost of goods required for operations

For a further discussion of such risks, uncertainties and assumptions, see "Risk Factors and Other Information" found on page 18 of this Prospectus. Prospective purchasers of the Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Prospectus and Ayala Land undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

# DEFINITION OF TERMS

As used in this Prospectus, the following terms shall have the meanings ascribed to them:

**"Affiliate"** shall mean, with respect to Ayala Land, Inc., any corporation directly or indirectly controlled by it, whether by way of ownership of at least twenty percent (20%) of the total issued and outstanding capital stock of such corporation, or the right to elect at least twenty percent (20%) of the number of directors in such corporation, or the right to control the operation and management of such corporation by reason of management, contract or authority granted by said corporation to Ayala Land, Inc.

**"ALI Group"** refers to Ayala Land and two (2) of its wholly-owned subsidiaries, Community Innovations, Inc. and Laguna Properties Holdings, Inc.

**"Ayala Group"** refers to Ayala Corporation and its subsidiaries and affiliates.

**"Ayala Land"** or **"ALI"** or the **"Company"** or the **"Issuer"** refers to Ayala Land, Inc.

**"Ayala Land Property**" or **"ALI Group Project"** refers to any property being offered for sale by the ALI Group.

**"Application to Purchase"** shall mean the document to be executed by any Person or entity qualified to become a Bondholder.

**"Automatic Debit Authority"** shall mean the authority given by each Bondholder to the Collecting Agent to debit its, his or her account maintained with the Collecting Agent with the amounts needed to pay for its, his or her subscription to each series of the Bonds, which authority shall be incorporated in the Application to Purchase.

**"Banking Day"** or **"Business Day"** shall be used interchangeably to refer to a day on which commercial banks are open for business in the cities of Manila, Makati and Pasig, Metro Manila.

**"Beneficial Owner"** shall mean any person (and "Beneficial Ownership" shall mean ownership by any person) who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting of such security; and/or investment returns or power in respect of any security, which includes the power to dispose of, or to direct the disposition of, such security; provided, however, that a person shall be deemed to have an indirect beneficial ownership interest in any security which is:

i. held by members of his immediate family sharing the same household;
ii. held by partnership in which he is a general partner;
iii. held by a corporation of which he is a controlling shareholder; or
iv. subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities; provided, however, the following persons or institutions shall not be deemed to be beneficial owners of securities held by them for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of business, so long as such securities were acquired by such persons or institutions without the purpose or effect of changing or influencing control of the issuer:

a. A broker dealer;
b. An investment house registered under the Investment Houses Law;
c. A bank authorized to operate as such by the *Bangko Sentral ng Pilipinas*;
d. An insurance company subject to the supervision of the Office of the Insurance Commission;
e. An investment company registered under the Investment Company Act;
f. A pension plan subject to regulation and supervision by the Bureau of Internal Revenue and/or the Office of the Insurance Commission or relevant authority; and
g. A group in which all of the members are persons specified above.

**"Bond Agreements**" shall mean the Trust Agreement between the Issuer and the Trustee, the Collecting and Paying Agency Agreement between the Issuer and the Collecting and Paying Agent, and the Custodianship and Registry Agreement between the Issuer and the Registrar.

**"Bondholder"** shall mean a Person whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders.

**"Bonds"** or **"Exchangeable Bonds"** or **"Ayala Land Homestarter Bonds"** shall refer to the series of bonds in the aggregate principal amount of ₱252,000,000 to be issued by Ayala Land over a period of 36 months, all of which shall have the same Maturity Date.

**"Bonus Credit"** shall refer to a notional credit given to the Bondholder in case such Bondholder decides to apply the aggregate face value and accrued interest of the Bonds owned by such Bondholder as downpayment for an Ayala Land Property. This Bonus Credit shall be equivalent to 10% of the total principal contribution at the time of conversion.

**"BPI"** shall refer to Bank of the Philippine Islands, an affiliate of the Ayala Group.

**"BPI Family Savings Bank"** is a wholly owned subsidiary of BPI and BPI's consumer lending arm.

**"BPI Capital"** shall refer to BPI Capital Corporation.

**"Business Day"** shall mean any day, except Saturday and Sunday, on which commercial banks are not required or authorized to close in Makati City, Metro Manila.

**"Certificate of Indebtedness"** shall mean the certificate to be issued by the Issuer evidencing and covering such amount corresponding to the particular series of the Bonds issued as of a relevant date.

**"Collecting Agent"** shall refer to BPI – Treasury Operations Department, the party which shall receive the funds for payment of the Bonds from the Bondholders and remit the same to the Issuer.

**"Custodian"** shall mean Standard Chartered Bank, a foreign banking corporation incorporated in England with limited liability by Royal Charter, acting through its branch in the Philippines and duly licensed to engage in trust and other fiduciary business in the Philippines through its Trust & Local Custody Department, with principal office at 6788 Ayala Avenue, Makati City, being the custodian appointed by the Issuer under the Custodianship and Registry Agreement.

**“Debit Period”** shall mean an additional four (4) Banking Days during which the Designated Account would still be automatically debited for any missed payments. Payments not made during the Debit Period shall have to be made over-the-counter.

**“Designated Account”** shall refer to the BPI or BPI Family Savings Bank account nominated by the Bondholder from which payments for the purchase of the Bonds shall be debited and to which the principal and interest payments shall be made.

**“Eligible Bondholders”** shall refer to individual and corporate retail investors, including but not limited to, existing clients of BPI and BPI Family Savings Bank.

**“Expresslink Automatic Debit Arrangement Facility”** shall mean the facility maintained and operated by the Collecting Agent that will enable the Company to collect and receive payments from the Bondholders by means of the Collecting Agent’s Automatic Debit Arrangement software-programs, which debit the accounts of the Bondholders with the Collecting Agent and credits the debited amounts in lump sum to the Company’s account opened and maintained with the Collecting Agent for purposes of paying the Bondholders’ subscription to the Bonds.

**“Initial Issue Date”** shall mean the date on which the first series of the Bonds shall be issued by the Issuer, which is on February 16, 2006, or such other date as may be agreed by the Issuer and the Issue Manager.

**“Issue Date”** shall mean, with respect to each series of the Bonds, the date on which such series of the Bonds or a portion thereof shall be issued by the Issuer.

**“Issue Manager”** shall refer to BPI Capital Corporation, the entity appointed by the Issuer as issue manager for the Bonds pursuant to the Issue Management and Underwriting Agreement.

**“Lien”** shall mean any mortgage, pledge, lien or encumbrance constituted on any of the Issuer’s properties for the purpose of securing its or its Affiliate’s obligation.

**“Majority Bondholders”** shall mean, at any time, the Bondholder or Bondholders who hold, represent or account for more than fifty percent (50%) of the aggregate outstanding principal amount of the Bonds.

**“Maturity Date”** shall mean the date falling on the third anniversary of the Initial Issue Date; provided that, in the event that the Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be automatically extended to the immediately succeeding Business Day.

**“Offer”** shall mean the issuance of Bonds by the Issuer under the Conditions as herein contained and those contained in the Prospectus.

**“Offer Period”** shall refer to the period during which the Bonds shall be offered to the public. For the avoidance of doubt, the Offer Period shall be up to two (2) months and will commence within two (2) days from the date of the SEC Permit.

**“Paying Agent”** shall refer to the BPI – Treasury Operations Department, the party which shall receive the funds from the Issuer for payment of principal, interest and other amounts due on the Bonds and remit the same to the Bondholders based on the records shown in the Register of Bondholders.

**“Payment Date”** shall mean each of the following dates at which each Bondholder is required to effect payment of its subscription to a Series: (a) for the first Series, the date which is not later than two (2) Business Days prior to the Initial Issue Date; and (b) for each Series other than the first Series, the relevant Issue Date thereof.

**“Pesos”, “₱”,** and **“Philippine currency”** shall mean the legal currency of the Republic of the Philippines.

**“Philippines”** shall mean the Republic of the Philippines.

**“PSE”** shall refer to the Philippine Stock Exchange.

**“Register of Bondholders”** shall mean the electronic record of the issuances, sales and transfers of the Bonds to be maintained by the Registrar pursuant to and under the terms of the Custodianship and Registry Agreement.

**“Registrar”** shall refer to Standard Chartered Bank, a foreign banking corporation incorporated in England with limited liability by Royal Charter, acting through its branch in the Philippines and duly licensed to engage in trust and other fiduciary business in the Philippines through its Trust & Local Custody Department, with principal office at 6788 Ayala Avenue, Makati City, being the registrar appointed by the Issuer to maintain the Register of Bondholders under the Custodianship and Registry Agreement.

**“Registry Confirmation”** shall refer to the written confirmation issued by the Registrar to the Bondholders representing their beneficial interest in each series of the Bonds.

**“SEC”** means the Philippine Securities and Exchange Commission or its successor agency/ies.

**“SEC Permit”** shall mean the Permit to Sell issued by the SEC in connection with the Offer.

**“Series”** shall mean a portion of the Bonds which is being offered for sale and distribution to the public on the relevant Issue Date.

**“SRC”** shall mean the Securities Regulation Code of the Philippines.

**“Taxes”** shall mean any present or future taxes including, but not limited to, documentary stamp tax, levies, imposts, filing and other fees or charges imposed by the Republic of the Philippines or any political subdivision or taxing authority thereof including surcharges, penalties and interests on said taxes, but excluding final withholding tax, gross receipts tax, and taxes on the overall income of the Underwriter or of the Bondholders.

**“Trustee”** shall refer to BPI Asset Management and Trust Group, the entity appointed by the Issuer which shall act as the legal title holder of the Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Bonds and enforce all possible remedies pursuant to such mandate.

**“Underwriter”** shall refer to BPI Capital Corporation, the entity appointed by the Issuer as underwriter of the Bonds on a best-effort basis, pursuant to the Issue Management and Underwriting Agreement.

# EXECUTIVE SUMMARY

*This summary highlights information contained elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective purchasers should read the entire Prospectus carefully, including the section entitled "Risk Factors and Other Information" on page 18 and the financial statements and the related notes to those statements included in this Prospectus as F-1 to F-6.*

**The Company**

Ayala Land, one of the largest real estate conglomerates in the Philippines, is the real estate arm of Ayala Corporation. It was spun-off by Ayala Corporation in 1988 to enhance management focus on Ayala Corporation's existing real estate business and to highlight the value of the assets, management and capital structure of the real estate business. Ayala Land's shares were offered to the public in an initial public offering of primary and secondary shares in 1991 and subsequently listed on the Makati and Manila Stock Exchanges (predecessors of the Philippine Stock Exchange). The offering diluted Ayala Corporation's effective interest in Ayala Land to 88.2%. Since then, Ayala Corporation's effective interest has been further diluted to 62.1% as of September 30, 2005. Ayala Land's shares are listed on the PSE with a market capitalization of ₱86.3 billion as of September 30, 2005 based on the closing price of Ayala Land's common shares on the PSE as of that date.

Ayala Land is engaged principally in the planning, development and marketing of large-scale communities having a mix of residential, office, commercial, leisure and other uses. Ayala Land, through its various subsidiaries, is also engaged in the development and sale of industrial lots, as well as the development of hotels and serviced apartments. It also constructs office and/or residential condominiums and buildings for sale and/or lease. It has also begun to develop for sale high-end house-and-lot packages at its residential developments and, through its wholly-owned subsidiary, Laguna Properties Holdings, Inc. (LPHI), continues to develop and sell mass housing units and farm/hacienda lots. Ayala Land, through another wholly owned subsidiary, Community Innovations, Inc. (CII), has also begun to tap the middle-income urban residential segment of the real estate industry through its core-mid residential projects.

Ayala Land is also engaged in the development of shopping centers and leases to third parties retail space and land therein. The Ayala Center, which is located in the Makati Central Business District, is its foremost shopping center which houses hotels, retail establishments, and restaurants. Through its subsidiaries, it also operates movie theaters in these shopping centers and has ventured into the operation of food court and entertainment facilities to complement its shopping center operations.

Ayala Land, through its subsidiary, Makati Development Corporation (MDC), which is primarily responsible for the horizontal land development of its projects and those of its subsidiaries, also provides third party construction services for industrial building and government infrastructure projects. Through the Ayala Property Management Corporation, the Company also provides property management services.

Ayala Land is also engaged in information technology-related ventures through Ayala Landnet.com, Inc., a 50-50 joint venture with Ayala Corporation's iAyala Company, Inc. The joint venture is responsible for the launch in June 2000 of myAyala.com, an online shopping mall.

In the first quarter of 2002, Ayala Land established a wholly owned subsidiary, Ayala Land Sales, Inc. (ALSI), which now provides in-house sales and marketing support to Ayala Land. ALSI has about 135 property specialists who exclusively market and sell property and condominium projects developed by Ayala Land. Meanwhile, CII employs its own sales force and has accredited brokers. Its other wholly-owned subsidiary, LPHI, which is engaged in the development of mass housing projects, has accredited exclusive brokers. In addition, the Company formed Ayala Land International Sales, Inc. (ALISI) in the first quarter of 2005 to further broaden its reach and actively tap the overseas markets.

In April 2003, Ayala Land, through a joint venture with Evergreen Holdings, Inc. (Evergreen), a Philippine corporation owned and controlled by the shareholders of United Laboratories, Inc., completed the acquisition, through Columbus Holdings Inc. (Columbus), of 50.38% of the total outstanding capital stock of Bonifacio Land Corporation (Bonifacio Land) from Metro Pacific Corporation. Ayala Land and Evergreen each owns 50% of the total outstanding capital of Columbus. Bonifacio Land owns 55% of Fort Bonifacio Development Corporation (FBDC) which then owned approximately 55-hectares of saleable land in Bonifacio Global City, a prime real estate development project adjacent to the Manila Golf Club and the residential subdivision of Forbes Park.

Ayala Land's total consolidated revenues for 2004 amounted to ₱18.13 billion, up by 24% year-on-year. Net income for the same period was ₱3.01 billion, about 11% higher than 2003 results. In the first nine (9) months of 2005 (9M2005), consolidated revenues totaled ₱16.46 billion, up 35% year-on-year, while net income was posted at ₱2.59 billion, up 46%.

As of September 30, 2005, Ayala Land had ₱75.12 billion in assets. Its stockholders' equity amounted to ₱37.81 billion. Ayala Land's cash reserves stood at ₱7.96 billion with a current ratio of 1.69:1 as of such date. Bank debt-to-equity ratio was at 0.29:1 while net debt-to-equity ratio was at 0.08:1.

Project and capital expenditures amounted to ₱4.8 billion for the period, representing 35% of the ₱13.6 billion budget for the year. About 55% was used for residential building projects. Residential subdivisions accounted for 18%. The balance of 27% was spent to fund construction of buildings for lease, primarily Market!Market!, a 150,000 sqm value mall along C-5 Road, and build-to-suit office buildings.

**New Projects**

Notwithstanding continued market uncertainties, the Company has lined-up projects to tap available market opportunities. In the retail segment, Ayala Land's ongoing project is the 200,000-square meter North Triangle Commercial Center in Quezon City. Market!Market!'s Phase1B (34,000 sqm) soft-opened in October 2005. The Company's new Business Process Outsourcing (BPO) buildings are expected to increase office revenues in the succeeding quarters. Ayala Land's first BPO facility, PeopleSupport Center, was completed in April 2005, and Convergys, its second BPO building, was completed in October. The Company started tapping demand for BPO space outside Metro Manila. In July, the Company broke ground on the two-storey Infonxxx Building in Sta. Rosa, Laguna which has 5,612 sqm of gross leasable area. Infonxxx was completed in November 2005 and will provide jobs for some 1,200 call center professionals.

Ayala Land's program to increase shareholder value remains on track. The Company will continue to tap new sources of growth and make its presence felt in new markets and geographic areas through projects such as the Anvaya Cove, an integrated leisure and residential project located in Morong, Bataan launched last July, and the Celadon Residences and Avida Towers in Manila which were both launched in the last quarter of 2005. The Columns at Legaspi, a sequel to The Columns at Ayala Avenue, was launched in November. Affiliate Cebu Holdings, Inc. launched Amara, a high-end residential subdivision in Cebu, in October while Fort Bonifacio Development Corporation will start development of a BPO Office Building in December. Initiatives to rationalize the asset portfolio and improve return on assets through the sale of receivables and non-core assets are being sustained.

**Ayala Land's Principal Strengths**

Ayala Land's principal strength lies in its involvement in highly diversified business segments such as the development of high-end subdivision lots and residential buildings, middle residential projects and mass housing development, as well as in office and shopping center leasing, development and sale of industrial lots, hotel operations and construction. Ayala Land holds the dominant share of the market in most of these business segments.

**Ayala Land's Business Strategy**

Ayala Land's strategy is to maintain and enhance its position as the leading property developer in the Philippines. It intends to continue its traditional activity of developing large-scale, mixed-use integrated communities while diversifying its revenue base. Ayala Land hopes to achieve this by: (i) increasing its rental activities, where it has locked-in growth in gross leasable area with new malls of various formats and (ii) expanding its real estate business into different markets and geographic areas with increasing presence in the middle and mass housing segments, where it believes there are significant growth opportunities or where proposed developments will complement its existing real estate business. Furthermore, Ayala Land is expanding its service businesses, with external contracts accounting for an increasing share of its services income.

**Ayala Land's Principal Shareholder**

Ayala Land's principal shareholder, Ayala Corporation, effectively owns 62.1% of Ayala Land, and is one of the Philippines' oldest conglomerates, with diversified operations in the telecommunications, financial services, electronics, information technology, and trade and distribution businesses.

**Ayala Land's Principal Executive Offices**

Ayala Land's executive offices are at the 31st Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City. The telephone number at this address is (632) 848-5643 and the fax number is (632) 759-4566.

**Risks of Investing**

Prospective investors should consider carefully all of the information set forth in this Prospectus and, in particular, prospective purchasers should evaluate the specific factors set forth under "Risk Factors and Other Information" found on page 18 for risks involved in the purchase of the Bonds. These factors may be summarized into those that pertain to the business and operations of Ayala Land, in particular, and those that pertain to the over-all political, economic, and business environment in the Philippines, in general.

As a real estate developer, Ayala Land competes with other developers and developments to attract purchasers of land and condominiums, retail and office tenants, and clientele for the retail outlets, restaurants and hotels in its commercial centers in terms of reputation, reliability, price, and the quality and location of the community in which the relevant project is located. Ayala Land's successful financial and operating performance as a real estate company will impact on its ability to refinance or repay its debt, including the Bonds. Moreover, the issuance of the Bonds should be evaluated in terms of its impact on the consolidated indebtedness of Ayala Land and the operating risks inherent in a further increase in its debt.

Ayala Land is further subject to certain debt covenants for the Bond issuance and its other existing debt. Ayala Land's failure to comply with these covenants could cause a default which, if not waived, could result in the debt becoming immediately due and payable. If any amount outstanding were to be accelerated, it could potentially trigger a cross-default under substantially all of Ayala Land's debt, in which case Ayala Land may not be able to perform its payment obligations under the Bonds. In such case, the Bonds, being unsecured debt, will be effectively subordinated in right of payment to all secured debt of Ayala Land to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

External factors affecting the Bond issuance is the absence of an active secondary market and an organized trading market for the Bonds which may affect its liquidity. Other factors include the impact of current and future Philippine laws and regulations on certain aspects of real estate development, such as environment, health and safety; the effect of natural catastrophes, and political or economic instability in the country, including foreign exchange rate fluctuations which could impact on the acquisition cost of certain dollar-denominated construction materials and equipment necessary for Ayala Land's business.

**Summary of Financial and Operating Data**

The following table sets forth financial and operating information and other data of Ayala Land. Prospective purchasers of the Bonds should read the summary financial data below together with the financial statements and the notes thereto, as well as the "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 77 of this Prospectus. The summary financial data for the three (3) years ended December 31, 2004 are derived from Ayala Land's audited financial statements, including the notes thereto, which are included in this Prospectus beginning on page F-1. Summary financial data for the nine (9) months ended September 30, 2005 are derived from Ayala Land's unaudited financial statements. Ayala Land's financial statements are prepared in accordance with generally accepted accounting principles in the Philippines (Philippine GAAP).

| (in million Pesos) | *9M2005 Sept 30 UNAUDITED | 2004 December 31 AUDITED | 2003 December 31 AUDITED | 2002 December 31 AUDITED |
|---|---|---|---|---|
| **Income Statement Data** | | | (as restated) | (as restated) |
| Revenues | 16,456 | 18,127 | 14,624 | 12,214 |
| Costs and expenses | | | | |
| Real estate | 8,440 | 10,496 | 7,979 | 6,539 |
| General & Administrative | 1,562 | 2,100 | 1,541 | 1,314 |
| Interest and other charges | 3,060 | 1,328 | 1,517 | 695 |
| Provision for income tax | 532 | 1,253 | 793 | 1,125 |
| Income Before Net Earnings applicable to minority interest | 2,862 | 2,951 | 2,794 | 2,541 |
| Net Income | 2,591 | 3,008 | 2,709 | 2,519 |
| Unappropriated retained earnings, | | | | |
| Beginning | 17,357 | 14,995 | 15,711 | 15,438 |
| Cash dividends | (2,913) | (646) | (3,426) | (2,245) |
| Prior period adjustment | (17) | 3,008 | 2,709 | 2,519 |
| Unappropriated retained earnings, end | 17,018 | 17,357 | 14,995 | 15,711 |
| Earnings per share | **0.24 | **0.28 | **0.25 | **0.24 |

***Based on weighted average number of shares: 10,788,953,835 as of September 30, 2005; 10,766,243,000 in 2004; 10,706,701,000 in 2003; and 10,693,608,000 in 2002*

| **Balance Sheet Data** | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 7,957 | 6,360 | 4,855 | 5,713 |
| Land and improvements | 16,803 | 17,308 | 19,065 | 19,713 |
| Investments | 25,362 | 25,935 | 22,712 | 18,834 |
| Total assets | 75,117 | 73,349 | 67,012 | 61,767 |
| Long-term debt-current portion | 805 | 1,111 | 1,336 | 310 |
| Long-term debt (net of current portion) | 8,706 | 10,389 | 11,588 | 8,623 |
| Total liabilities (including minority interests) | 37,304 | 35,623 | 31,739 | 26,360 |
| Stockholders' Equity | 37,813 | 37,725 | 35,273 | 35,407 |

* should be read together with SEC Form 17-Q which will be subsequently submitted by the Issuer from time to time

# SUMMARY OF THE OFFERING

| | |
|---|---|
| Issuer............................ | Ayala Land, Inc. |
| Instrument .................... | Bonds in the aggregate principal amount of ₱252,000,000 to be issued monthly in a series for thirty six (36) months with each Series having a maximum aggregate principal of approximately ₱7,000,000. |
| Use of Proceeds........... | The net proceeds of the issue shall be used by Ayala Land for general corporate purposes. |
| Issue Price ................... | 100% of face value |
| Offer Period................... | To start within two (2) days from the date of the SEC Permit and end at 3pm on February 14, 2006, or such other date as may be agreed by the Issuer and the Issue Manager and Underwriter. |
| Issue Date .................... | February 16, 2006, or such other date as may be agreed by the Issuer and the Issue Manager and Underwriter. |
| Form and Denomination of the Bonds ................. | Each series of the Bonds will be represented by a certificate of indebtedness to be issued and registered in the name of Bank of the Philippine Islands – Asset Management and Trust Group as trustee for the Bondholders. The beneficial interests of each Bondholder in and to the Bonds or Series thereof will be shown on and recorded in, and trading thereof will be effected through, the Register of Bondholders maintained by Standard Chartered Bank as registrar. The Bonds shall be issued and traded in denominations of ₱5,000 and in integral multiples thereof. Trading of the Bonds will be done over-the-counter. |
| Eligible Bondholders..... | Individuals and corporate retail investors, including but not limited to, existing clients of BPI and BPI Family Savings Bank. |
| Minimum Purchase...... | Each Eligible Bondholder shall be required to subscribe to the Bonds at a minimum of ₱5,000 per Series, or equal to an aggregate amount of ₱180,000. |
| Maximum Purchase..... | Each Eligible Bondholder shall be permitted to subscribe to a maximum amount of ₱25,000 per Series, or equal to an aggregate amount of ₱900,000. Subscriptions in excess of the minimum purchase of ₱180,000 shall be in increments of ₱180,000. |
| Terms of Payment.......... | To facilitate collection, payment by a Bondholder for the principal amount of the Bondholder's subscription for each Series shall be collected from the Bondholder using the |

Collecting and Paying Agent's Expresslink Automatic Debit Arrangement Facility. In the event the Bondholder is not a BPI or BPI Family Saving Bank accountholder, such Bondholder shall be required to open an account together with the submission of the Application to Purchase. As a BPI or BPI Family Savings Bank accountholder, the Bondholder will also be required to comply with the required minimum daily balance prescribed by BPI or BPI Family Saving Bank depending on the type of account opened.

The Application to Purchase the Bonds shall incorporate an Automatic Debit Authority authorizing the Collecting Agent to debit the Designated Account for the Bondholder's payment for each series of the Bonds to be issued. Upon acceptance by the Underwriter of the Application to Purchase, the Designated Account shall be debited for the payment of the first Series of the Bonds. Thereafter, the Designated Account shall be debited every Issue Date for the payment of each Series issued on the relevant Issue Date.

Interest Rate.................. Each Series of the Bonds shall bear interest on its principal amount from and including the Initial Issue Date thereof, at a fixed rate of 5.0% per annum. Interest will not be compounded and shall be payable on Maturity Date, less the amount of any applicable withholding taxes.

Maturity Date................. All Series held by each Bondholder shall mature on the third anniversary of the Initial Issue Date.

Payout Options............ Unless otherwise terminated earlier, the principal amount of the Bondholders held by a Bondholder and accrued interest thereon shall be paid on Maturity Date either, at the option of the Bondholder, by application to the payment of the downpayment for the purchase by the Bondholder of an Ayala Land Property of the Bondholder's choice, or by way of delivery of the lump sum amount to the Bondholder. A Bondholders shall thus have two payout options, as follows:

(a) Option 1: The Bondholder may opt to apply the sum of the principal amount of the Bonds plus accrued interest thereon to the payment of the downpayment (to the extent of such sum of the principal amount of the Bonds plus accrued interest thereon) of an Ayala Land Property of the Bondholder's choice including, but not limited to, those listed under the section on "Description of Securities to be Registered" on page 35 of this Prospectus. The sum of the principal amount of the Bonds held by the Bondholder and accrued interest thereon but net of the applicable withholding tax shall be applied to the payment of the purchase price of the Bondholder's selected Ayala Land Property. However, the Bondholder can avail itself of Option 1 only if such Bondholder is able to fully pay, or obtain bank or in-house financing, based on the independent credit evaluation of the party providing the financing, for the portion of such purchase price not covered by the principal plus accrued interest on the Bond at the time of downpayment application.

Under Option 1, the Bondholder would be entitled to receive, in addition to the 5% interest on the Bonds, a Bonus Credit which shall be applied against the selling price of the selected Ayala Land Property. This Bonus Credit shall be equivalent to 10% of the aggregate face value of the Bonds held by the Bondholder, and not the selling price of the selected Ayala Land Property, at the time of downpayment application.

The Bondholder shall be given 60 calendar days from Maturity Date to select an Ayala Land Property to which to apply the total value of the Bond. Interest (at the same rate of 5.0% per annum) shall accrue on the principal amount of the Bonds during such 60-day period. In the event no property is selected at the end of the 60$^{th}$ calendar day from Maturity Date, the total principal plus interest earned until the 60$^{th}$ day after Maturity Date shall be credited back on the third Banking Day after the 60$^{th}$ day to the Bondholder's Designated Account.

A maximum aggregate principal amount of ₱900,000 of the Bonds held by not more than five (5) Bondholders, plus accrued interest and Bonus Credit thereon but net of applicable withholding tax, may be applied as full or partial payment for any Ayala Land Property of the Bondholder's choice.

(b) Option 2: The Bondholder may opt to have the principal plus accrued interest remitted to the Bondholder's Designated Account on Maturity Date. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment or any interest, on the succeeding Business Day if the Maturity Date is not a Business Day.

No later than 90 calendar days prior to Maturity Date, a letter together with reply forms requesting the Bondholders to express their preferred payout option shall be sent to all Bondholders. In the event no reply is received from the Bondholder on or before the last Issue Date, then it shall be assumed that the payout preference of the Bondholder is Option 1.

| | |
|---|---|
| Early Downpayment Application...................... | At any time prior to Maturity Date, the Bondholder has the right to apply the sum of the aggregate principal amount of the Bonds held by it, plus accrued interest thereon but net of applicable withholding tax, as full or partial payment for any Ayala Land Property of the Bondholder's choice including, but not limited to, those listed under the section on "Description of Securities to be Registered" on page 35 of this Prospectus, such application of payment to be made to the extent of such sum. In such an event, the Bonds registered in such Bondholder's name as well as all of such Bondholder's subscription to the remaining unissued series of the Bonds shall be deemed terminated. However, it is understood that the Bondholder can avail of this early payment application only if such Bondholder is able to fully pay, or obtain bank or in-house financing, based on the independent credit evaluation of the party providing the financing, for the portion of such purchase price not covered by the principal plus accrued interest on the Bond at time of downpayment application.<br><br>Should the Bondholder use this option, the Bondholder would be entitled to receive, in addition to the 5% interest on the Bonds, the Bonus Credit.<br><br>A maximum aggregate principal amount of ₱900,000 of the Bonds held by not more than five (5) Bondholders, plus accrued interest and Bonus Credit thereon but net of applicable withholding tax, may be applied as full or partial payment for any Ayala Land Property of the Bondholder's choice. |
| Debit Payment System...………………... | Without the need for prior notice from the Issuer nor the Collecting Agent, the Designated Account of the Bondholder shall be automatically debited on each Issue Date, for the Bondholder's payment for the subsequent series of the Bonds to be issued as it is stated in the Bondholder's Application to Purchase. |
| Forced Termination….. | In the event that the Collecting and Paying Agent fails to receive payment in case of failure of a Bondholder to pay the amount corresponding to the Bondholder's subscription to any Series, plus Penalty Interest thereon as applicable, on the relevant Payment thereof or within the applicable Grace Periods, the ownership by said Bondholder to all Bonds held by it shall be deemed automatically terminated and the subscriptions of the Bondholder to all the unissued Series of Bonds shall be deemed automatically cancelled. By reason of the termination of the ownership by the Bondholder to the Bonds, the Bondholder shall be entitled to receive from the |

Issuer, as the Issuer shall pay the Bondholder, through the Collecting and Paying Agent, the principal amount of the Bonds held by it. The 5.0% fixed interest on the principal amount of the Bonds shall be forfeited as penalty. Payment shall be delivered by the Collecting and Paying Agent to the relevant Bondholder by way of credit of payment to the Bondholder's Designated Account.

In the event of a forced termination herein, the Underwriter may, from the date of the termination up to the date immediately preceding the next Issue Date, find a replacement Bondholder who will pay for the total principal amount of the Bonds previously held by the original Bondholder plus any applicable Penalty Interest thereon and subscribe to the remaining series of Bonds held by the latter. For this purpose, each Bondholder irrevocably authorizes the Underwriter, in case of a forced termination, to assign its interests in the Bonds held by it to a replacement Bondholder, and to execute any and all such documents as may be necessary in connection with such transfer. Capital gains tax, documentary stamp tax and other taxes, if any, arising from the transfer of the Bonds pursuant to this paragraph shall be for the account of the original Bondholder.

Should the Underwriter fail to find a replacement Bondholder within the aforesaid period, the Bonds held by such original Bondholder shall be automatically retired. Retired Bonds shall not be re-issued.

The Issuer, the Trustee and the Collecting Agent are not under any obligation to inform any Bondholder of any due date for payment of any subscription to a Series, or failure of the Bondholder to deliver payment on the relevant due date thereof.

Taxation.........................

Except: (1) tax on a Bondholder's interest income on the Bonds which is required to be withheld by the Issuer, and (2) capital gains tax, documentary stamp tax and other taxes on the transfer of Bonds, if any and as applicable, all payments of principal and interest will be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines or any political subdivision, agency or instrumentality thereof, including but not limited to, issue, registration, or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer. *Provided, however*, that the Issuer shall not be liable for, and will not gross-up the payments of interest on the principal amount of the Bonds so as to cover any final withholding tax applicable on interest earned on the Bonds prescribed under the National Internal Revenue Code of 1997, as amended, and its implementing rules and regulations.

Documentary stamp tax on the original issue of the Bonds shall be for the Issuer's account.

A Bondholder who is exempt from or are not subject to final withholding tax on interest income may claim such exemption by submitting to the Underwriter, together with its Application to Purchase: (i) pertinent documents evidencing its tax-exempt status, duly certified as "true copy" by the relevant office of the Bureau of Internal Revenue; (ii) a letter addressed to the Issuer and the Collecting and Paying Agent, requesting both the Issuer and the Collecting and Paying Agent not to make any withholding on said Bondholder's interest income; and (iii) an indemnity agreement wherein the Bondholder undertakes to indemnify the Issuer and the Collecting and Paying Agent for any tax or charge that may later on be assessed against the Issuer on account of the non-withholding of tax on the Bond held by such Bondholder.

The tax treatment of a Bondholder may vary depending upon such person's particular situation and certain Bondholders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important to a Bondholder. Bondholders are urged to consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability and effect of any state, local or foreign tax laws.

Credit Rating.................. Since the Bond issuance does not amount to more than 25% of the Issuer's net worth, it is exempted from the requirement of being rated by a rating agency accredited by the SEC in accordance with SRC Rule 12-1(6)(c)(iii).

Title and Transfer........... The beneficial interest of each Bondholder in and to the Bonds or Series thereof will be shown on and recorded in the Register of Bondholders maintained by the Registrar. Trading of the Bonds or Series thereof will also be effected through the Registrar, such that any assignment or transfer of a beneficial interest in the Bonds will be effective only upon the registration and recording by the Registrar of such assignment or transfer in the Register of Bondholders.

Any assignment or transfer by a Bondholder (the "assigning Bondholder") of his beneficial interest in the Bonds shall be allowed only if made in full and shall be inclusive of: (i) the title and interest of the Bondholder in and to all Series which have been issued as of the assignment date, and (ii) any and all subscription rights to all Series which will be issued subsequent to the assignment date. A partial assignment of title, interest and rights of the Bondholder shall not be allowed. Any and all taxes, as well as settlement fees and other charges (other than registration fees which shall be paid by the Issuer) that may be imposed by the Registrar in respect of any transfer or change of beneficial title to the Bonds, including the settlement of documentary stamps taxes, if any, shall be for the account of the assigning Bondholder, unless such cost is otherwise assumed by the transferee in writing under the terms of the relevant assignment and transfer agreement executed between the assigning Bondholder and its transferee.

Compulsory transfer of title to the Bonds due to death or cessation of the corporate existence of a Bondholder shall be made in accordance with and subject to the relevant provisions of law.

Transfer Restriction…… The Bonds are intended for the retail market, and may not be assigned or transferred to any person except to Eligible Bondholders.

Ranking.......................... The Bonds constitute direct, unconditional and unsecured Peso-denominated obligations of the Issuer and will rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, other than obligations mandatorily preferred by law.

Trustee........................... Bank of the Philippine Islands – Asset Management and Trust Group shall act as legal title holder of the Bonds in trust for the benefit of the Bondholders under the terms and conditions of the Trust Agreement between the Issuer and the Trustee.

Registrar........................ Standard Chartered Bank shall establish and maintain the Register of Bondholders and shall act as transfer agent in respect of the Bonds.

Collecting Agent............. Bank of the Philippine Islands – Treasury Operations Department shall receive the funds for payment of the Bonds from the Bondholders and remit the same to the Issuer.

Paying Agent.................. Bank of the Philippine Islands – Treasury Operations Department shall receive the funds from the Issuer for payment of principal, interest and other amounts due on the Bonds and remit the same to the Bondholders based on the records of the Registrar.

# RISK FACTORS AND OTHER INFORMATION

***General Risk Warning***

- *The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities.*
- *Past performance is not a guide to future performance.*
- *There is an extra risk of losing money when securities are bought from smaller companies. There may be a big difference between the buying price and the selling price of these securities.*
- *An investor deals in a range of investments each of which may carry a different level of risk.*

***Prudence Required***

*The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake its, his or her own research and study on the trading of securities before commencing any trading activity. The Bondholder may request information on the securities and Issuer thereof from the SEC which are available to the public.*

***Professional Advice***

*An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities specially those high risk securities.*

*An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds. This Prospectus contains forward-looking statements that involve risks and uncertainties. Ayala Land adopts what it considers conservative financial and operational controls and policies to manage its business risks. Ayala Land's actual results may differ significantly from the results discussed in the forward-looking statements. See "Forward-Looking Statements" found on page 1 of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of Ayala Land, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below in the order of their importance to the investor as follows:*

**1. Ayala Land faces a highly competitive business environment**

Ayala Land is subject to significant competition in each of its principal businesses. Competitive pressure is expected to remain as large property developers focus on the value-conscious middle market. Sustained demand growth is not likely to occur without real improvement in employment and real incomes. However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

Ayala Land competes with other developers and developments to attract purchasers of land and condominiums, retail and office tenants, and clientele for the retail outlets, restaurants and hotels in its commercial centers.

*Land, Condominium, Mass Housing and Core Middle-Income Residential Sales*

With respect to land and condominium sales, Ayala Land competes for purchasers primarily on the basis of reputation, reliability, price and the quality and location of the community in which the relevant site is located. With respect to its residential developments, Ayala Land competes with a number of other developers. For mass housing and middle-income market, Ayala Land competes for buyers based on quality of projects, affordability of units, and availability of in-house financing.

(a) High-end residential building sales

Ayala Land continues to be the leader in the high-end residential buildings sector. It competes with a price premium over other high-end developers but justifies it with superior locations, workmanship quality, timely project completions, and overall reputation in the real estate industry. Through these, it has been able to keep well ahead of other high-end players.

Real estate has always been a major investment vehicle for the affluent. However, the politico-economic situation has only made marketing upscale real estate projects to this sector more difficult. In a volatile environment, the high-end market tends to “wait and see,” or they simply choose to place their money in other investment instruments. Ayala Land has mitigated the market risks it faces through carefully planned project launches, clear product differentiation, product innovation, and increased market expansion through overseas sales.

(b) Affordable housing segment

In the area of affordable housing, there is an increase in activities and marketing efforts of major developers to reach their desired target market. With weakening purchasing power due to regular increase in costs fueled by energy cost increases and possible increase in borrowing rates, focused efforts are required since potential buyers are harder to come by. The above-mentioned factors reduce the interest and capacity for purchase of the regular Filipino as each peso earned is allocated less on housing needs and more on the basic commodities needed for day to day living.

On the positive side, the following factors are spurring interest because of their long-term effects in the real estate industry:

- Increase in threshold of selling price to ₱2.5 million to qualify for VAT exemption thereby easing the price increases for middle-income housing products
- Increased developments north of Manila due to the new North Luzon Expressway (NLEX); the areas south of Manila may experience a temporary slow down in sales take up due to the rehabilitation of the South Luzon Expressway (SLEX) but will lead to a more reliable route and heightened concentration to and from the Calamba, Laguna, Batangas (CALABA) area, in the long term

- Increasing purchase by the Overseas Filipino Workers (OFW) market due to increased marketing and promotions by various developers and steady increase of their purchasing power as the Peso devaluates versus the Euro and US Dollar.
- Availability of Pag-ibig financing

(c) Middle-income housing segment

In the middle-income market segment, the environment remains challenging due to the number and aggressive moves of competitors. However, in 2005, ALI's core-mid business (through its subsidiary, CII) has been able to grow 69% in revenues and 46% in net income. Demand is expected to remain strong for several reasons: (a) improved economic outlook, (b) strong buying interest from overseas-based Filipinos, and (c) emerging preference for condominium living. Ayala Land remains confident that it can compete effectively in this segment because of its superior product offering in terms of location, amenities, features, after-sales service, and very competitive pricing and payment terms.

*Office Space, Retail and Land Rental*

With respect to its office rental properties, Ayala Land competes for tenants primarily based upon the quality and location of the relevant building, the reputation of the building's owner, the quality of support services provided by the property manager, and rental and other charges. Lease rates and occupancy levels have improved because of the decreasing vacancy levels in the Makati Central Business District where ALI office buildings are located. According to research data provided by Colliers, vacancy rate as of 3rd-quarter 2005 is estimated at 7.7%. The improvement in the occupancy rate is attributable to space take-up by call centers and BPO firms. Lease rates have likewise gradually improved because of the dwindling office supply.

With respect to its retail properties for lease, Ayala Land competes for tenants primarily based upon the ability of the relevant retail center to attract customers - which generally depends on the quality and location of, and mix of tenants in, the relevant retail center and the reputation of the owner and/or operator of the retail center as well as the rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is expected to grow. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers, including the commercial center constructed by its affiliate, Cebu Holdings, Inc. (CHI) in Cebu Business Park.

*Industrial Property Business*

The industrial property business is affected by oversupply as well as limited industrial expansion and declining foreign investments. The entry of China into the World Trade Organization in 2003 has posed a strong economic effect on competition for foreign direct investment. Overall, the industrial property segment is not likely to show significant demand improvement in the medium term.

*Hotel Operations*

Although the hotel industry has seen increasing visitor arrivals in the past several years, it is generally subject to the slowdown in business activity due to global and local political turmoil, rise in oil prices, and increasing security concerns. The increased political uncertainty prevalent in 2005 has resulted to slowdown in new investments and business expansion, but the booming call center/BPO business and renewed interest in mining provide some resilience to the hotel industry. The Department of Tourism is projecting 2.9 million visitors in 2006 compared to its 2005 forecast of 2.5 million.

*Infrastructure, Construction and Property Development*

Ayala Land's construction business is exposed to the sector-wide slowdown in construction activities.

Notwithstanding stiff competition in the industry, Ayala Land intends to maintain and enhance its position as the leading property developer in the Philippines by continuing its over-all business strategy of developing large-scale, mixed-use integrated communities that perpetuate its strong market presence while ensuring a steady revenue growth for the Company. Furthermore, the Company has started to venture into stand-alone opportunities like the North Triangle Commercial Center project, The Columns, and E-service offices. Ayala Land further intends to diversify its revenue base by expanding its real estate business into different markets and geographic areas in the country where there are significant growth opportunities or where its proposed developments complement its existing real estate business.

**2. Ayala Land's leverage creates a number of operating risks and might affect its ability to repay the Bonds**

The increase in debt of Ayala Land could have certain adverse consequences. For example, it could:

- reduce Ayala Land's ability to service its existing debt obligations, including the Bonds;
- affect Ayala Land's ability to obtain additional financing for working capital, capital expenditures, debt service and other purposes;
- require Ayala Land to divert a substantial portion of its cash flow from operations to debt service;
- affect Ayala Land's flexibility in reacting to and taking advantage of developments and opportunities in the Philippine economy, the Philippine property development industry and its business; or
- place Ayala Land at a competitive disadvantage to its competitors that have less debt.

As of September 30, 2005, ₱5.0 billion of Ayala Land's consolidated indebtedness of ₱10.9 billion was evidenced by public instruments. Any such debt may, by mandatory provision of law, rank ahead of the Bonds in the event of the insolvency or liquidation of Ayala Land.

Ayala Land's ability to refinance or repay its debt depends on its successful financial and operating performance, which will be affected by a number of factors, many of which are beyond its control. If Ayala Land is unable to refinance its debt, obtain necessary waivers or obtain new financing under these circumstances, Ayala Land would have to consider various other financing options such as sale of assets, procuring additional capital and other options available to Ayala Land under applicable law. Ayala Land might also have to modify, delay or abandon its development and expansion plans. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and “Description of Certain Other Debt” found on page 77 and page 118, respectively, of this Prospectus.

**3. Ayala Land is subject to certain debt covenants**

The Bond Agreements and agreements for certain debts of Ayala Land contain covenants that limit its ability to, among other things:

- incur additional long-term debt to the extent that such additional indebtedness results in a breach of a required financial ratio;
- materially change its nature of business;
- merge, consolidate, or dispose of substantially all its assets;
- materially change its ownership and control of its capital stock; and
- encumber, mortgage or pledge some of its assets.

Complying with these covenants may cause Ayala Land to take actions that it otherwise would not take or not take actions that it otherwise would take. Ayala Land’s failure to comply with these covenants would cause a default, which, if not waived, could result in the debt becoming immediately due and payable. In this event, Ayala Land may not be able to repay or refinance such debt on terms that are acceptable to Ayala Land or at all. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Description of Certain Other Debt”, and “Description of Securities to be Registered” found on page 77, page 118, and page 35, respectively, of this Prospectus.

Ayala Land has historically taken a prudent stance in managing its debt obligations by ensuring that any corporate act, whether or not performed in the ordinary course of business, do not violate any existing debt covenants. In the event that any significant corporate act or business transaction is seen to potentially affect its debt covenants that would lead to accelerating the payment of existing debt, Ayala Land shall endeavor to obtain the necessary waivers in accordance with relevant debt agreements.

**4. The occurrence of certain events of default under Ayala Land's other debt could affect Ayala Land’s ability to repay the Bonds**

A significant portion of the debt of Ayala Land contains terms which allow a lender to accelerate Ayala Land’s debt if any event or change in circumstances occurs which, in the sole opinion of such lender, would materially impair Ayala Land's ability to repay its debt. If any amount outstanding were to be accelerated, it could potentially trigger a cross-default under substantially all of Ayala Land’s debt, in which case Ayala Land may not be able to perform its payment obligations under the Bonds.

Ayala Land has not defaulted in any of its debt obligations. It shall continue its strategy of compliance with its debt obligations by adopting the necessary internal controls in financial management and adopting good corporate governance policies that will ensure that transactions do not violate debt covenants.

## 5. The Bonds will be effectively subordinated to other debt

The Bonds will be effectively subordinated in right of payment to all secured debt of Ayala Land to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

Under Philippine law, in the event a borrower submits to insolvency or liquidation proceedings in which the borrower's assets are liquidated, unsecured debt evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt not evidenced by a public instrument. Debt becomes evidenced by a public instrument when it has been acknowledged by the creditor and the debtor before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a *jurat* (a statement by one party of the circumstances in which an affidavit was made) may also be sufficient to make a document a public instrument. Accordingly, it may be possible for debt to become evidenced by a public instrument through the unilateral action of a creditor without the knowledge of the borrower.

As of September 30, 2005, ₱10.9 billion of Ayala Land's consolidated indebtedness of ₱1.2 billion was evidenced by a public instrument. Any such debt may, by mandatory provision of law, rank ahead of the Bonds in the event of the insolvency or liquidation of Ayala Land.

Notwithstanding the foregoing, investors are assured of Ayala Land's continuing track record of prudent financial management which has allowed its net debt-to-equity ratio to be pared down to 0.11:1. Thus, in the unlikely event that Ayala Land is dissolved, there will be sufficient assets for disposition that will meet all its debt obligations, whether secured or unsecured.

## 6. Ayala Land from time to time considers business combination alternatives

Although Ayala Land's loan covenants contain certain restrictions on business combinations and changes of control, Ayala Land will be able to engage in certain types of combinations. Business combinations involve financial and operational risks and could result in significant changes to Ayala Land's operations, management and financial condition. These changes could adversely affect Ayala Land's ability to fulfill its obligations under the Bonds and reduce the value of the Bonds.

Ayala Land takes into consideration its existing debt obligations and concomitant debt covenants in making any major business investments or acquisitions. Any financial commitments under such business combinations are evaluated in terms of the inflow of revenues of such projects and their ability to service their own financial requirements once fully operational.

## 7. Successful development of Ayala Land's projects is dependent on various factors

There is no certainty that Ayala Land's current and future projects will be implemented as planned and within the projected timetable. Real estate developments are subject to risks such as delays in obtaining financing and/or finalizing project plans and/or obtaining approvals, increases in construction costs, natural calamities and/or market downturns hereinafter described. Ayala Land's future financial performance may be significantly affected by factors that limit its ability to finance and complete its current and future projects in a timely and cost-effective manner and to market them successfully.

Ayala Land continually looks out for growth opportunities in different market segments and geographic areas in order that any negative impact on a particular market segment or geographic area by reason of political, economic or other factors will allow it to pursue its projects or other developments not affected thereby, thus providing it with a steady revenue base.

**8. Market for the Bonds**

There is no active secondary market for the Bonds. Ayala Land cannot assure Bondholders that an active market will develop for the Bonds. Even if an active market for the Bonds developed, the Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, Ayala Land's operations, the overall market for debt securities and other factors. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Bonds.

The Issue Manager and Underwriter is, however, a large institution which has an extensive client base. Thus, it has the capability to sell or transfer the Bonds and develop an active secondary market.

**9. Ayala Land's business is affected by regulation in the Philippines**

Ayala Land operates a material part of its businesses in a regulated environment. Ayala Land is subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety. These include laws and regulations governing air emissions, water and waste water discharges, odor emissions and the management of, disposal of and exposure to hazardous materials.

Ayala Land cannot predict what environmental or health and safety legislation or regulations will be amended or enacted in the future; how existing or future laws or regulations will be enforced, administered or interpreted; or the amount of future expenditures that may be required to comply with these environmental or health and safety laws or regulations or to respond to environmental claims.

Ayala Land, through its construction and property management arms, keeps itself abreast of the latest technologies that enable it to implement existing sanitation, environment and safety laws and regulations at cost-efficient means, a strategy which has earned Ayala Land awards from several local and international organizations.

**10. Natural catastrophes may affect Ayala Land's businesses adversely**

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, volcanic eruptions and earthquakes, the occurrence of such natural catastrophes in the future may materially disrupt and adversely affect the business operations of Ayala Land.

Although there can be no assurance that it will be adequately compensated for all damages and economic losses resulting from natural catastrophes, Ayala Land maintains comprehensive insurance against natural catastrophes to cover its various developments.

## 11. Government and Economic Factors

The growth and profitability of Ayala Land will be influenced by the general political situation in, and the state of the economy of, the Philippines. Any political or economic instability in the future may have a negative effect on the financial results of Ayala Land and the level of dividends paid and distributions made by Ayala Land's subsidiaries.

*Political Considerations*

The Philippines has from time to time experienced political and military instability. In February 1986, a peaceful civilian and military uprising ended the 21-year rule of President Ferdinand Marcos and installed Corazon Aquino as President of the Philippines. Between 1986 and 1989, there were a number of attempted *coups d'etat* against the Aquino administration, none of which were successful. Political conditions in the Philippines were generally stable during the 1990s following the election of Fidel V. Ramos as President in 1992.

However, in 2000, Ramos' successor, Joseph Estrada, was subject to allegations of corruption, culminating in impeachment proceedings, mass public protests in Manila, withdrawal of support of the military, and Estrada's removal from office. The Vice President, Gloria Macapagal-Arroyo, was sworn in as President on January 20, 2001. Although Joseph Estrada questioned the legitimacy of the Arroyo administration, the Supreme Court, on March 2, 2001, rendered a unanimous decision confirming the legitimacy of President Macapagal-Arroyo's assumption of office. In May 2001, violent clashes between government forces and Estrada loyalists occurred when Estrada was imprisoned to face charges of plunder. The trial on charges of plunder is ongoing.

On July 23, 2003, a group of more than 200 armed soldiers took over and occupied the Oakwood Premier Ayala Center, a serviced apartment project owned by Makati Property Ventures, Inc., a subsidiary of Ayala Hotels, Inc., and located in the Ayala Center at Makati City. The soldiers seized the premises and surrounded it with explosive devices. The group accused the Arroyo administration of corruption and terrorist acts. After hours of negotiations, the group agreed to return to barracks and the uprising ended peacefully less than 24 hours after it had begun. The soldiers have been demoted following their prosecution in the court martial proceedings before military tribunals.

Furthermore, the Philippines has been subject to sporadic terrorist attacks in the past three (3) years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been identified as being primarily responsible for kidnapping and terrorist activities in the Philippines. A series of bombings in the southern part of the Philippines also occurred in 2004. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, including possibly the Abu Sayyaf organization, which has ties to the Al-Qaeda terrorist network. On February 14, 2005, three bomb explosions in the Makati financial district in Manila, Davao City and General Santos City resulted in the deaths of eight (8) persons and more than 100 people were injured. The Abu Sayyaf organization claimed responsibility for the attack. There can be no assurance that the Philippines will not be subject to further acts of terrorism in the future.

On May 10, 2004, national presidential elections were held and, on June 24, 2004, pursuant to the Constitution, a joint session of Congress declared Gloria Macapagal-Arroyo as President-elect. President Macapagal-Arroyo began her six-year term on June 30, 2004. Certain opposition candidates including defeated presidential candidate Fernando Poe, Jr. questioned the election results, alleging massive fraud and disenfranchisement of voters. On July 23, 2004, Mr. Poe petitioned the Philippine Supreme Court, acting as the Presidential Electoral Tribunal, to order a recount of votes cast in more than 118,000 precincts nationwide. In response, President Macapagal-Arroyo and Vice President Noli de Castro asked the tribunal to dismiss the petition for lack of merit. The petition was dismissed as a result of the death of Mr. Poe in December 14, 2004.

In 2005, the country again experienced political tension following President Macapagal-Arroyo's admission that she called a high ranking official of the Commission on Elections during the May 2004 election campaign. This was followed by the resignation of the Administration's key Cabinet officials, including its economic team, as well as the filing of three (3) impeachment complaints alleging that she rigged the 2004 elections, was involved in corruption and condoned human rights violations. Although the House of Representatives has dismissed all impeachment complaints against President Macapagal-Arroyo, there can be no assurance that political turmoil will abate.

No assurance can be given that present or future governments will adopt economic policies conducive to sustaining economic growth. Any future economic, political or social instability in the Philippines could adversely affect Ayala Land's business, financial condition or results of operations.

*Economic Considerations*

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency, imposition of exchange controls, debt restructuring and electricity shortages and blackouts.

From mid-1997 to 1998, the economic turbulence in Asia affected the Philippine economy in a number of ways, including causing the depreciation of the Peso, increases in interest rates, increased unemployment and inflation, increased volatility and a decline in prices in the domestic stock market, the downgrading of the Philippines' local currency rating and the ratings outlook for the Philippine banking sector and the reduction of foreign currency reserves. These and other factors led to a slowdown in the growth of the Philippine economy in 1997 and 1998. Gross Domestic Product (GDP) decreased by 0.6% in 1998. In response, the Government adopted a number of policies in an attempt to strengthen the country's economic fundamentals. In 1999 and 2000, a number of the Philippines' economic indicators showed some improvements, though the pace of economic growth slowed again in 2001 after the impeachment of then President Joseph Estrada. Since 2001, when current President Macapagal-Arroyo came to power, the economy has seen generally stable growth although it has been negatively affected by political scandals, the armed take-over of Oakwood in 2003 and the uncertainty generated by the May 2004 presidential elections.

Additionally, the Government's ability to generate sufficient revenues to service its budgetary requirements has created an increasing budget deficit and has necessitated substantial domestic and international borrowings. The International Monetary Fund, the World Bank and the major credit ratings agencies have each expressed concern with the ability of the Government to continue running significant budget deficits and have urged certain fiscal reform measures to address the issue. On January 17, 2005, Standard & Poor's Ratings Services lowered its long-term foreign currency sovereign credit rating for the Philippines to "BB-" from "BB", and the Philippines' long-term local currency sovereign credit to "BB+" from "BBB-". Standard & Poor's also lowered its short-term local currency sovereign rating on the Government to "B" from "A-3", and affirmed its short-term "B" foreign currency sovereign credit rating. The outlook is stable. Standard & Poor's noted that their downgrades reflect the Government's inadequate response to its fiscal problems citing little progress on the Government's attempts to raise tax revenue and the Government's dependence on foreign debt. The inability of the Government to implement fiscal reform, or a delay in implementing such reforms, could negatively impact general economic conditions in the Philippines.

On February 16, 2005, Moody's Investor Service (Moody's) lowered the Philippines' foreign currency rating for government bonds to B1 from Ba2, the long-term foreign-currency country ceiling from bonds to B1 from Ba2, the long-term foreign-currency ceiling for bank deposits to B1 from Ba3, and the local-currency ration for the government to B1 from Ba2. The outlook on all of the ratings is stable. Moody's local-currency guideline remains A1. Moody's cited concerns that the large build-up in government and external debt introduces heightened vulnerability to shocks despite recent efforts by the government and legislature to enact fiscal reforms.

During the last decade, the Philippine economy has from time to time experienced devaluation of the Peso and limited availability of foreign exchange. As of September 30, 2005, the Peso closed at ₱55.977 to the US Dollar. The depreciation of the Peso increases the acquisition cost of Ayala Land's dollar-denominated construction materials and equipment. It also increases the cost of servicing dollar-denominated loans of two companies owned by its subsidiary, Ayala Hotels, Inc. which, as of September 30, 2005, amounts to $10.6 million (approximately ₱593.2 million) and constitutes 5% of Ayala Land's consolidated loans. See "Description of Certain Other Debt" on page 118 of this Prospectus. The weaker Peso may also contribute to a slowdown of the Philippine economy, which in turn could weaken demand for Ayala Land's developments and services.

Any deterioration in economic conditions in the Philippines as a result of these or other factors, including a significant depreciation of the Peso or increase in interest rates, could adversely affect the Company's financial condition and results of operation.

To mitigate the abovementioned risks, Ayala Land shall continue to adopt what it considers conservative financial and operational controls and policies within the context of the prevailing business, economic, and political environments taking into consideration the interests of its customers, stakeholders and creditors.

# PHILIPPINE TAXATION

*The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.*

*The tax treatment of a holder of Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of Bonds.*

***HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.***

*As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.*

***Taxation of Interest***

The Philippine National Internal Revenue Code of 1997 (the "Tax Code") provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine resident individuals from the Bonds are thus subject to income tax, which is withheld at source, at the rate of 20%. Generally, interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 35% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates will not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

***Documentary Stamp Tax***

A documentary stamp tax is imposed upon the issuance of the Bonds at the rate of ₱1.00 on each ₱200.00 or fractional part thereof, of the face value of such Bonds.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

***Taxation on Sale or Other Disposition of the Bonds***

*Income Tax*

A holder will recognize gains or losses upon the sale or other disposition (including redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such holder's acquisition cost of the Bonds. Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five (5) years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) will not be subject to income tax. Since the Bonds have a maturity of less than five (5) years, any gains realized from the sale of the Bonds will be subject to Philippine income tax.

Any net gain realized from the sale of the Bonds by individual citizens and individual resident aliens are aggregated with their other items of taxable income and, after allowable deductions, are subject to income tax at progressive rates ranging from 5% to 32%. Any net gain realized from the sale of the Bonds by a non-resident alien individual engaged in trade or business in the Philippines which qualifies as Philippine-source income under Philippine tax situs rules shall be subject to income tax in the same manner as an individual citizen and resident alien individual. Any net gain realized from the sale of the Bonds by a non-resident alien individual not engaged in trade or business in the Philippines which qualifies as Philippine-source income under Philippine tax situs rules shall be subject to income tax at the rate of 25%.

Any net gain realized from the sale of the Bonds by domestic and resident foreign corporations are aggregated with their other items of taxable income and, after allowable deductions, are subject to income tax at the rate of 35%, provided that, in the case of resident foreign corporations, the gain derived by such foreign corporations from the sale of the Bonds qualifies as Philippine-source income under Philippine tax situs rules. Any net gain realized from the sale of the Bonds by a non-resident foreign corporation which qualifies as Philippine-source income under Philippine tax situs rules shall be subject to tax at the rate of 35%.

*Estate and Donor's Tax*

The transfer by a deceased person, whether a Philippine resident or non-Philippine resident, to his heirs of the Bonds will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A holder of the Bonds will be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2%

to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

# USE OF PROCEEDS

This Offering is primarily targeted to benefit the low to middle-income market segment. Ayala Land's objective is to encourage this segment to save sufficient funds to enable them to own real estate property in the future. To make the Bonds more affordable to the target market, the Bonds shall be issued in a series and the different series of the Bonds shall be issued against monthly payments by the Bondholders over a period of 36 months. Ayala Land expects that the initial net proceeds of the Offering will only amount to approximately ₱5,000,000 after fees and expenses. Thereafter, Ayala Land expects to receive approximately ₱7,000,000 a month over the next 35 months. Given the amount of the proceeds expected to be received by the Issuer on a monthly basis, such proceeds are not projected to pay for any specific transaction but shall be used for general corporate purposes.

Net proceeds from the Offering is estimated as follows:

| | | Total |
|---|---|---|
| Estimated proceeds from the sale of the Bonds .................. | | ₱252,000,000 |
| Less: Estimated expenses | | |
| SEC Registration | | |
| SEC Registration Fee | 252,000 | |
| SEC Legal Research Fee | 2,520 | |
| Underwriting and Other Professional Fees | | |
| Underwriting Fee | 5,040,000 | |
| Legal Fee – Underwriter | 200,000 | |
| Legal Fee – Issuer | 100,000 | |
| Printing/Photocopying Costs | 200,000 | |
| Trustee Fees | 1,140,000 | |
| Registrar Fees | 1,300,000 | |
| Collecting and Paying Agent Fees | 1,150,000 | |
| | | 9,384,520 |
| Estimated net proceeds to Ayala Land, Inc. | | ₱242,615,480 |

As Issue Manager and Underwriter, BPI Capital will receive up to 2.0% of the aggregate issue amount. Such amount shall be inclusive of underwriting and selling fees.

All other expenses incurred in connection with the issuance of the Bonds, including the documentary stamp tax, fees of the Registrar, Collecting and Paying Agent, Trustee and the Issuer's own auditing charges, will be for the account of the Issuer.

# DETERMINATION OF OFFERING PRICE

Each series of the Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

This Offering is primarily targeted to benefit the low to middle-income market segment, particularly those who avail of traditional bank products such as savings account or time deposit. Interest rates of these alternative investments were considered to arrive at the 5.0% guaranteed interest rate. For an initial ₱5,000 investment, an investor could earn 1.00-1.50% gross, if placed in a savings account, and 4.75-5.75% gross, if placed under time deposit. Investors may also invest in trust products with interest rates ranging from 6.0-9.0%. However, most trust products would require a minimum initial investment of ₱100,000.

The 5.0% interest rate gives prospective investors a chance to earn more than the traditional savings / time deposit accounts. If applied as downpayment, the return would effectively be higher than alternative trust products.

# PLAN OF DISTRIBUTION

BPI Capital Corporation ("BPI Capital" or the "Issue Manager" and/or "Underwriter", as the context may require), pursuant to an Issue Management and Underwriting Agreement entered into with the Issuer (the "Issue Management and Underwriting Agreement), has agreed to act as issue manager for the Offer and as such, distribute, sell and underwrite the entire ₱252,000,000 Bond issue on a best efforts basis, subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

Each investor shall be required to subscribe to a minimum of ₱5,000 per series equivalent to an aggregate amount of ₱180,000 and shall be permitted to subscribe to a maximum of ₱25,000 per series equivalent to an aggregate amount of ₱900,000 which shall be paid through monthly payments over a period of three (3) years. Subscriptions in excess of the minimum shall be in increments of ₱180,000.

The Underwriter shall return to the Issuer any unsubscribed Bonds. The Underwriter does not have the responsibility to take up any Bonds from terminated subscriptions as described under "Description of Securities to be Registered" on page 35 of this Prospectus. The Issue Management and Underwriting Agreement may be terminated in certain circumstances prior to payment being made to the Issuer of the net proceeds of the Bonds.

BPI Capital is duly licensed by the SEC to engage in underwriting or distribution of the Bonds. BPI Capital may, from time to time, engage in transactions with and perform services in the ordinary course of its business for the Issuer or other members of the Ayala Group of which both the Issuer and Issue Manager forms part. BPI Capital is a wholly-owned subsidiary of the Bank of the Philippine Islands (BPI). Ayala Land and BPI are affiliated companies, each having Ayala Corporation as a major shareholder.

As Issue Manager and Underwriter, BPI Capital will receive up to 2.0% of the aggregate issue amount. Such amount shall be inclusive of underwriting and selling fees. The Issuer shall enter into separate agreements with the Registrar, the Collecting and Paying Agent, and the Trustee which will set out their respective fees for this Bond issuance

BPI Capital has no arrangement with Ayala Land whereby it has the right to designate or nominate a member or members of its board of directors.

***Sale and Distribution by the Underwriter***

(a) The distribution and sale of the Bonds shall be undertaken by the Underwriter who shall sell and distribute the Bonds to Eligible Bondholders.

(b) The Issuer reserves the right to appoint any other person or persons as issue manager, underwriter and/or selling agents of the Issue at any time during the validity of the SEC Permit.

***Term of Appointment***

The engagement of the Issue Manager shall subsist so long as the SEC Permit remains valid, unless otherwise terminated by the Issuer and Issue Manager.

### *Manner of Distribution*

The Issuer shall, in its sole discretion, determine the manner by which proposals for subscriptions to, and issuances of, Bonds shall be solicited. However, notwithstanding the method of origination selected by the Issuer, the sale of Bonds by the Issuer shall be effected only through the Underwriter.

### *Registry of Bondholders*

The Trustee shall cause the Registrar to keep an accurate electronic register of the sale, issuances and transfers of the Bonds.

# DESCRIPTION OF SECURITIES TO BE REGISTERED

*The following is a description of certain terms and conditions of the Bonds. This description of the terms and conditions of the Bonds set forth herein does not purport to be complete and is qualified in its entirety by reference to the agreements relating to the Bonds, copies of which are available for inspection at the offices of the Trustee. The terms and conditions set out in this section will, subject to amendment, be set out in the Trust Agreement between the Issuer and the Trustee.*

**General**

The issue of up to ₱252,000,000 aggregate principal amount of Homestarter Bonds was authorized by a resolution of the Executive Committee of Ayala Land passed on September 30, 2005 which was ratified by the Board of Directors on November 16, 2005 with some amendments. The Bonds shall be issued monthly in a series for thirty six (36) months commencing on February 16, 2006 or such other date as may be agreed by the Issuer and the Issue Manager, and on the corresponding day of each succeeding month thereafter.

Each Series shall have a maximum aggregate principal amount of ₱7,000,000. The Bonds will have a fixed coupon rate of five percent (5.0%) per annum. Interest shall not be compounded and shall be paid on Maturity Date. All Series held by each Bondholder shall mature, and the sum of principal amount thereof and interest thereon shall be due and payable to the Bondholder on Maturity Date in accordance with Clause 5 hereof.

The Bonds will be denominated in principal amounts of Five Thousand Pesos (₱5,000) and integral multiples thereof. Each investor shall be required to subscribe to a minimum of ₱5,000 per Series, or to an aggregate amount of ₱180,000, and shall be permitted to subscribe to a maximum of ₱25,000 per Series, or to an aggregate amount of ₱900,000, in either case to be paid through equal monthly payments over the 36-month period. Subscriptions in excess of the minimum shall be in increments of ₱5,000 per series or ₱180,000 in the aggregate. The Bonds shall be offered and sold to Eligible Bondholders through a general public offering in the Philippines.

The issuance of the Bonds shall be made pursuant to and under the terms and conditions of a Trust Agreement to be executed between the Issuer and the Bank of the Philippine Islands as trustee (the “Trustee”, which expression shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement). The statements of the terms and conditions of the Bonds set out herein do not purport to be complete and may be qualified by, and are subject to, the detailed provisions of the Trust Agreement and the other Bond Agreements.

A Collecting and Paying Agency Agreement shall be entered into in relation to the Bonds between the Issuer and the Bank of the Philippine Islands as collecting and paying agent (the “Collecting and Paying Agent”). The Issuer and the Trustee will execute a Custodianship and Registry Agreement with Standard Chartered Bank as custodian and registrar (the “Custodian” and/or the “Registrar,” respectively).

Copies of the Trust Agreement, the Collecting and Paying Agency Agreement and the Custodianship and Registry Agreement (collectively, the “Bond Agreements”) are available for inspection during normal business hours at the specified offices of the Trustee. The

Bondholders are entitled to the benefits of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and the other Bond Agreements applicable to them.

**1. Eligible Bondholders / Minimum and Maximum Purchase**

Only individuals and corporate retail investors are entitled to purchase the Bonds. Each Eligible Bondholder shall be required to subscribe to the Bonds at a minimum amount of ₽5,000 per Series, or equal to the aggregate amount of ₽180,000, and shall be permitted to subscribe to a maximum amount of ₽25,000 per Series, equal to the aggregate amount of ₽900,000. Each subscription shall be paid monthly on each Issue Date.

**2. Form, Denomination and Title**

*(a) Form and Denomination*

Each Series of the Bonds will be represented by a certificate of indebtedness to be issued and registered in the name of the Trustee for the benefit of the Bondholders in an amount equivalent to the aggregate principal amount of such Series. Not later than 11:00 a.m. of the relevant Issue Date, the Issuer shall deliver to the Trustee for the authentication by the latter the duly executed certificate of indebtedness for the relevant Series of the Bonds. The Trustee shall thereupon deliver to the Custodian, for the latter's custody and on behalf of the Bondholders, each duly executed and authenticated certificate of indebtedness.

*(b) Title*

The beneficial interest of each Bondholder in and to the Bonds or Series thereof will be shown on and recorded in the Register of Bondholders maintained by the Registrar. The Registrar shall issue a Registry Confirmation in respect of each Series of the Bonds to each Bondholder whose beneficial interests in such Series of the Bonds are recorded in the Register of Bondholder.

*(c) Trading*

Trading of the Bonds will be done over-the-counter. Trading of the Bonds will also be effected through the Registrar, such that any assignment or transfer of a beneficial interest in the Bonds will be effective only upon the registration and recording by the Registrar of such assignment or transfer in the Register of Bondholders.

Upon receipt by the Registrar of a written notification and instruction from the Trustee of a transfer of a beneficial interest in a Bond and the submission of all required documents, the Registrar shall register the transfer in the Register of Bondholders. Transfers shall be made in accordance with Clause 11.

**3. Terms of Payment**

The Bondholder shall be required to effect payment of its subscription to the first Series not later than two (2) Business Days prior to the Initial Issue Date, and to each Series thereafter on the relevant Issue Date for such Series.

To facilitate collection, payment by a Bondholder for the principal amount of the

Bondholder's subscription for each Series shall be collected from the Bondholder using the Collecting and Paying Agent's Expresslink Automatic Debit Arrangement Facility. In the event the Bondholder is not a BPI or BPI Family Savings Bank accountholder, such Bondholder shall be required to open an account together with the submission of the Application to Purchase. As a BPI or BPI Family Savings Bank accountholder, the Bondholder will also be required to comply with the required minimum daily balance requirement prescribed by BPI or BPI Family Savings Bank depending on the type of account opened. The Application to Purchase shall also incorporate an Automatic Debit Authority authorizing the Collecting Agent to debit the Designated Account for the Bondholder's payment for each series of the Bonds to be issued. Upon acceptance by the Underwriter of the Application to Purchase, the Designated Account shall be debited by the Collecting and Paying Agent for the payment of the first Series of the Bonds. Thereafter, the Designated Account shall be debited every Issue Date for the payment of each Series issued on the relevant Issue Date.

In the event that the Collecting and Paying Agent is unable to debit the Bondholder's Designated Account by reason of closure of the Designated Account or insufficiency of clear and withdrawable funds for payment of the Bondholder's subscription to the first Series on the Payment Date, the Bondholder's subscription shall be cancelled and deemed withdrawn.

In the event that the Collecting and Paying Agent is unable to debit the Bondholder's Designated Account by reason of insufficiency of clear and withdrawable funds for payment of the Bondholder's subscription to the any Series (other than the first Series) on the relevant Payment Date thereof, the Bondholder shall be entitled to effect payment, by way of auto-debit arrangement, but subject to the payment of a daily penalty interest thereon in the amount equal to ₱0.70 for every ₱5,000 worth of subscription then remaining unpaid (the "Penalty Interest"), within a grace period of four (4) days from Issue Date (the "First Grace Period"). For this purpose, the Collecting and Paying Agent shall be authorized to debit from the Bondholder's Designated Account on each day of the First Grace Period the amount representing the principal amount of the Bondholder's subscription for such Series plus Penalty Interest. Further, in the event that the Collecting and Paying Agent is unable to debit the Bondholder's Designated Account by reason of insufficiency of clear and withdrawable funds for payment of the Bondholder's subscription to the any Series (other than the first Series) on the last day of the First Grace Period, the Bondholder shall be entitled to effect an over-the-counter payment of its subscription plus Penalty Interest through any of the Collecting and Paying Agent's branches in the Philippines, for a period of ten (10) days from and including the day immediately succeeding the First Grace Period (the "Second Grace Period," and together with the First Period is otherwise referred to herein as the "Grace Periods").

In the event that the Collecting and Paying Agent is unable to receive payment from the Bondholder either on the Payment Date and within the Grace Periods, the amount corresponding to the Bondholder's subscription to any Series on the relevant Payment Date thereof, plus Penalty Interest thereon as applicable, the Bonds of the Bondholder shall be deemed terminated pursuant to Clause 7 and its subscription rights shall be deemed cancelled without need for any further act or notice.

## 4. Interest

Each Series of the Bonds shall bear interest on its principal amount from and including the Issue Date thereof, at a fixed rate of 5.0% per annum. Interest will not be compounded and shall be payable on Maturity Date, less the amount of any applicable withholding taxes.

The Bonds will cease to bear interest from and including the Maturity Date, unless: (1) payment of principal and interest then outstanding, as defined in Clause 5, is not made or is improperly withheld or refused, in which case Clause 16 below will apply; or (2) Bondholders prefer payout Option 1 as defined in Clause 5 (1) below.

## 5. Manner of Payment of Bond Principal and Accrued Interest

Unless otherwise terminated earlier, the principal amount of the Bonds held by a Bondholder and accrued interest thereon shall be paid on Maturity Date either, at the option of the Bondholder, by application to the payment of the downpayment for the purchase by the Bondholder of an Ayala Land Property of the Bondholder's choice, or by way delivery of the lump sum amount to the Bondholder. A Bondholder shall thus have two payout options, as follows:

Option 1: The Bondholder may opt to apply the sum of the principal amount of the Bonds plus accrued interest thereon to the payment of the downpayment (to the extent of such sum of the principal amount of the Bonds plus accrued interest thereon) of a subdivision lot, house and lot or condominium unit listed below (an "Ayala Land Property") of the Bondholder's choice in any subdivision or condominium projects of the Issuer and its Affiliates including, but not limited to, the following, subject in any case to availability at the time of payment application:

| PROJECT | LOCATION | PRICE RANGE AS OF NOV 2005 (m to mean P'000'000 and k to mean P'000) | 20% DP |
|---|---|---|---|
| Villa Sta Monica Lots | Lipa, Batangas | P570k to P1.2m | P114k to P240k |
| San Antonio Heights Townhouse | Sto Tomas, Batangas | P620k to P920k | P124k to P184k |
| San Rafael Estates Lots | Sto Tomas, Batangas | P640k to 2.8m | P128k to P560k |
| San Antonio Heights House & Lots | Sto Tomas, Batangas | P875k to P1.9m | P175k to P380k |
| One Aeropolis | Sucat | P910k to P2.2m | P182k to P440k |
| Avida Towers | San Lazaro | P998k to P3.42m | P199.6k to P684k |
| Villa Sta Cecilia | Bacoor, Cavite | P1m to P2.2m | P200k to P440k |
| Aeropolis | New Manila | P1m to P3m | P200k to P600k |
| Sta. Catalina Village | Dasmarinas, Cavite | P1.3m to P3.8m | P260k to P760k |
| Villa Sta Monica (House & Lots) | Lipa, Batangas | P1.4m to P3.8m | P280k to P760k |
| Pampanga Project* | Pampanga | P1.5m to P4m | P300k to P800k |
| Sta Arcadia Estates | Cabanatuan | P1.56m to P4.47m | P312k to P894k |
| Verdana Mamplasan (Lots) | Binan, Laguna | P1.8m | P360k |
| Hacienda Sta. Monica (Farm Lots) | Lipa, Batangas | P1.8m to P3.3m | P360k to P660k |
| Avida - San Isidro | Batangas City | P2m to P4.2m | P400k to P840k |
| The Columns (Condomoniums) | Legaspi Village, Makati | P2.2m to P8m | P440k to P1.6m |
| San Rafael Estates (House & Lots) | Sto Tomas, Batangas | P3m to P6.9m | P600k to P1.38k |

| PROJECT | LOCATION | PRICE RANGE AS OF NOV 2005 | 20% DP |
| --- | --- | --- | --- |
| | | (m to mean P'000'000 and k to mean P'000) | |
| Serendra | Fort Bonifacio | P3m to P14m | P600k to P2.8m |
| Santarosa Estates 2 | Santa Rosa, Laguna | P3.4m to P8.7m | P680k to P1.74m |
| Celadon Condos | San Lazaro, Manila | P3.7m to P7.5m | P740k to P1.5m |
| Verdana Mamplasan (House & Lots) | Binan, Laguna | P4.8m to P7.4m | P960k to P1.48m |
| Celadon Townhouses | San Lazaro, Manila | P6m to P10m | P1.2m to P2.0m |
| Hacienda Sta. Monica (Hacienda Lots) | Lipa, Batangas | P6.2m to P8.2m | P1.24m to P1.64m |

The sum of the principal amount of the Bonds held by the Bondholder and accrued interest thereon but net of the applicable withholding tax shall be applied to the payment of the purchase price of the Bondholder's selected Ayala Land Property. However, the Bondholder can avail itself of Option 1 only if such Bondholder is able to fully pay, or obtain bank or in-house financing, based on the independent credit evaluation of the party or third party providing the financing, for the portion of the purchase price of the Ayala Land Property not covered by the aforesaid sum at the time of downpayment application.

Under this Option 1, the Bondholder would be entitled to receive, in addition to the 5.0% interest on the Bonds, a Bonus Credit which shall be applied against the selling price of the selected Ayala Land Property. This Bonus Credit shall be equivalent to 10.0% of the aggregate principal amount of the Bonds held by the Bondholder (and not the selling price of the selected Ayala Land Property) at the time of downpayment application.

The Bondholder shall be given 60 calendar days from Maturity Date to select an Ayala Land Property to which to apply the total value of the Bond. Interest (at the same rate of 5.0% per annum) shall accrue on the principal amount of the Bonds during such 60-day period. In the event no property is selected at the end of the 60th calendar day from Maturity Date, the total principal plus interest earned until the 60th day after Maturity Date shall be credited back on the third Banking Day after the 60th day to the Bondholder's Designated Account.

A maximum aggregate principal amount of ₱900,000 of Bonds held by not more than five (5) Bondholders, plus accrued interest and Bonus Credit thereon but net of applicable withholding tax, may be applied as full or partial downpayment for any Ayala Land Property of the Bondholder's choice.

Option 2: The Bondholder may opt to have the principal plus accrued interest remitted to the Bondholder's Designated Account on Maturity Date. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment or any interest, on the succeeding Business Day if the Maturity Date is not a Business Day.

Not later than 90 calendar days prior to Maturity Date, a letter together with reply forms requesting the Bondholders to express their preferred payout option shall be sent out to all Bondholders. In the event no reply is received from the Bondholder on or before the last Issue Date, it shall be assumed that the payout preference of the Bondholder is Option 1.

## 6. Early Payment Application

At any time prior to Maturity Date, the Bondholder shall have the right to apply the sum of the aggregate principal amount of the Bonds held by it, plus accrued interest thereon but net of applicable withholding tax, as full or partial payment for the purchase of any Ayala Land Property of the Bondholder's choice including, but not limited to, those listed in Clause 5 above, such application of payment to be made to the extent of such sum. In such an event, the Bonds registered in such Bondholder's name as well as all Series which the Bondholder shall have subscribed to but remains unissued shall be deemed terminated. However, it is understood that the Bondholder can avail of this early payment application only if such Bondholder is able to fully pay, or obtain bank or in-house financing, subject to the independent credit evaluation of the party or third party providing the financing, for the portion of the purchase price of the Ayala Land Property not covered by the aforesaid sum at time of payment application.

Should the Bondholder exercise its option under this Clause 6, the Bondholder would be entitled to receive, in addition to the 5.0% interest on the Bonds, the Bonus Credit.

A maximum aggregate principal amount of ₱900,000 of Bonds held by not more than five (5) Bondholders, plus accrued interest and Bonus Credit thereon but net of applicable withholding tax, may be applied as full or partial downpayment for any Ayala Land Property of the Bondholder's choice.

## 7. Forced Termination

In the event that the Collecting and Paying Agent fails to receive payment in case of failure of a Bondholder to pay the amount corresponding to the Bondholder's subscription to any Series, plus Penalty Interest thereon as applicable, on the relevant Payment thereof or within the applicable Grace Periods, the ownership by said Bondholder to all Bonds held by it shall be deemed automatically terminated and the subscriptions of the Bondholder to all the unissued Series of Bonds shall be deemed automatically cancelled. By reason of the termination of the ownership by the Bondholder to the Bonds, the Bondholder shall be entitled to receive from the Issuer, as the Issuer shall pay the Bondholder, through the Collecting and Paying Agent, the principal amount of the Bonds held by it. The 5.0% fixed interest on the principal amount of the Bonds shall be forfeited as penalty. Payment shall be delivered by the Collecting and Paying Agent to the relevant Bondholder by way of credit of payment to the Bondholder's Designated Account.

In the event of a forced termination herein, the Underwriter may, from the date of the termination up to the date immediately preceding the next Issue Date, find a replacement Bondholder who will pay for the total principal amount of the Bonds previously held by the original Bondholder plus any applicable Penalty Interest thereon and subscribe to the remaining series of Bonds held by the latter. For this purpose, each Bondholder irrevocably authorizes the Underwriter, in case of a forced termination, to assign its interests in the Bonds held by it to a replacement Bondholder, and to execute any and all such documents as may be necessary in connection with such transfer. Capital gains tax, documentary stamp tax and other taxes, if any, arising from the transfer of the Bonds pursuant to this paragraph shall be for the account of the original Bondholder.

Should the Underwriter fail to find a replacement Bondholder within the aforesaid period, the Bonds held by such original Bondholder shall be automatically retired. Retired Bonds shall not be re-issued.

The Issuer, the Trustee and the Collecting Agent are not under any obligation to inform any Bondholder of any due date for payment of any subscription to a Series, or failure of the Bondholder to deliver payment on the relevant due date thereof.

**8. Taxation**

Except: (1) tax on a Bondholder's interest income on the Bonds which is required to be withheld by the Issuer, and (2) capital gains tax, documentary stamp tax and other taxes on the transfer of Bonds, if any and as applicable, all payments of principal plus interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, or any political subdivision, agency or instrumentality thereof, including but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer. Provided, however, that the Issuer shall not be liable for, and will not gross-up the payments of interest on the principal amount of the Bonds so as to cover any applicable final withholding tax on interest earned on the Bonds prescribed under the National Internal Revenue Code of 1997, as amended, and its implementing rules and regulations. Documentary stamp tax on the original issue of the Bonds shall be for the Issuer's account.

A Bondholder who is exempt from or are not subject to final withholding tax on interest income may claim such exemption by submitting to the Underwriter, together with its Application to Purchase: (i) pertinent documents evidencing its tax-exempt status, duly certified as "true copy" by the relevant office of the Bureau of Internal Revenue; (ii) a letter addressed to the Issuer and the Collecting and Paying Agent, requesting both the Issuer and the Collecting and Paying Agent not to make any withholding on said Bondholder's interest income; and (iii) an indemnity agreement wherein the Bondholder undertakes to indemnify the Issuer and the Collecting and Paying Agent for any tax or charge that may later on be assessed against the Issuer on account of the non-withholding of tax on the Bond held by such Bondholder.

The tax treatment of a Bondholder may vary depending upon such person's particular situation and certain Bondholders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important to a Bondholder. Bondholders are urged to consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability and effect of any state, local or foreign tax laws.

**9. Ranking**

The Bonds constitute direct, unconditional and unsecured Peso-denominated obligations of the Issuer and will rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, other than obligations mandatorily preferred by law.

## 10. Credit Rating

Since the Bond issuance does not amount to more than twenty five percent (25%) of the Issuer's net worth, it is exempted from the requirement of being rated by a rating agency accredited by the SEC in accordance with SRC Rule 12-1(6)(c)(iii).

## 11. Title and Transfer

The beneficial interest of each Bondholder in and to the Bonds or Series thereof will be shown on and recorded in the Register of Bondholders maintained by the Registrar. Trading of the Bonds or Series thereof will also be effected through the Registrar, such that any assignment or transfer of a beneficial interest in the Bonds will be effective only upon the registration and recording by the Registrar of such assignment or transfer in the Register of Bondholders.

Any assignment or transfer by a Bondholder (the "assigning Bondholder") of his beneficial interest in the Bonds shall be allowed only if made in full and shall be inclusive of: (i) the title and interest of the Bondholder in and to all Series which have been issued as of the assignment date, and (ii) any and all subscription rights to all Series which will be issued subsequent to the assignment date. A partial assignment of title, interest and rights of the Bondholder shall not be allowed. Any and all taxes, as well as settlement fees and other charges (other than registration fees which shall be paid by the Issuer) that may be imposed by the Registrar in respect of any transfer or change of beneficial title to the Bonds, including the settlement of documentary stamps taxes, if any, shall be for the account of the assigning Bondholder, unless such cost is otherwise assumed by the transferee in writing under the terms of the relevant assignment and transfer agreement executed between the assigning Bondholder and its transferee.

Compulsory transfer of title to the Bonds due to death or cessation of the corporate existence of a Bondholder shall be made in accordance with and subject to the relevant provisions of law.

## 12. Transfer Restrictions

The Bonds are intended for the retail market and may not be assigned or transferred to any person except to Eligible Bondholders.

## 13. Financial Ratios

Similar to the covenants contained in other debt agreements of the Issuer, the Issuer shall maintain a Current Ratio of at least 0.30:1 and a Debt-to-Equity Ratio of not more than 3:1. As of September 30, 2005, the Company's Current Ratio and Debt-to-Equity Ratio stood at 1.69:1 and 0.29:1, respectively.

As used herein: (i) "*Current Ratio*" means the ratio which current assets bears to current liabilities; "*current assets*" means the aggregate (as of a relevant date for calculation) of the Issuer's cash, marketable securities, trade and other receivables realizable within one (1) year, subdivided land and other inventories saleable within one (1) year, prepaid expenses, deposits and other current assets as may be determined under generally accepted accounting principles; and "*current liabilities*" means the aggregate (as of the relevant date of calculation) of all liabilities of the Issuer falling due on demand or within one (1) year, including that portion of long-term debt which falls due within one (1) year, but excluding the current portion of any provision for estimated liability for land and property development; and "*long-term debt*" means the aggregate (as of a relevant date of calculation), of all those component parts of the liabilities of the Issuer which fall due or whose final payment is due on a date more than one (1) year after the relevant date for calculation, exclusive of reserve for land development and deferred credits such as but not limited to unearned income and/or unrealized gains; and (ii) "*Debt-to-Equity Ratio*" means the ratio which total liabilities bears to total stockholders' equity; "*total liabilities*" means the aggregate (as of a relevant date of calculation) of the current liabilities and long-term debt; and "*total stockholders' equity*" means the aggregate (as of a relevant date of calculation) of the par value of the outstanding common stocks, capital surplus, retained earnings appraisal surplus arising from past appraisal and any further appraisal surplus arising from subsequent independent certified appraisal of the Issuer's property, plant and equipment effected in accordance with generally accepted accounting principles in the Philippines, and any reserve for expansion projects, less any intangible assets such as but not limited to goodwill, trademarks, patents, copyrights, leaseholds, treasury stocks, organizational expenses, underwriting expenses and deferred expenses.

## 14. Negative Pledge

For as long as any of the Bonds remain outstanding, the Issuer covenants that the Issuer shall not, without the prior written consent of the Majority Bondholders (as hereinafter defined), permit any indebtedness for borrowed money to be secured by or to benefit from any Lien in favor of any creditor or class of creditors without providing the Bondholders with a Lien, the benefit of which is extended equally and ratably among them to secure the Bonds; provided, however, that this restriction shall not prohibit:

(a) Any Lien over any asset purchased, leased or developed in the ordinary course of business of such asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

(b) Any Lien constituted for any obligation or credit facility incurred for the purpose of pursuing any infrastructure project or investment therein, whether such infrastructure project is undertaken by the Issuer itself, by its Affiliates, and/or by the Issuer or its Affiliates with third parties, and whether the same is carried on separately from or integrated with any of the Issuer's real estate development, or any Lien constituted by the Issuer on its right to receive income or revenues (whether in the form of dividends or otherwise) from infrastructure projects or related investments therein;

(c) Any Lien created for the purpose of paying current taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty; or the validity of which is contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof and adequate reserves having been provided for the payment thereof;

(d) Any Lien to secure, in the normal course of the business of the Issuer or its Affiliates (as hereinafter defined): (i) statutory obligations; (ii) surety or appeal bonds; (iii) bonds for release of attachment, stay of execution or injunction; or (iv) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

(e) Any Lien: (i) imposed by law, such as carrier's, warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business and not material in amount; (ii) arising out of pledge or deposits under the workmen's compensation laws, unemployment insurance, old age pensions or other social security or retirement benefits or similar legislation; and (iii) arising out of set-off provisions in other agreements of the Issuer relating to its indebtedness; provided that the Bondholders hereunder shall also have, to the extent permitted by applicable law, and upon notice to the Issuer, a similar right of set-off;

(f) Any Lien in favor of banks, insurance companies, other financial institutions and Philippine government agencies, departments, authorities, corporations or other juridical entities, which secure a preferential financing obtained by the Issuer under a governmental program, and which cover assets of the Issuer which have an aggregate appraised value, determined in accordance with generally accepted appraisal principles and practices consistently applied not exceeding five billion Pesos (₱5,000,000,000);

(g) Any Lien existing on the date of the Trust Agreement which is disclosed in writing by the Issuer to Trustee prior to the execution of the Trust Agreement;

(h) Any Lien established in favor of insurance companies and other financial institutions in compliance with the applicable requirements of the Office of the Insurance Commission on admitted assets or the requirements of the *Bangko Sentral ng Pilipinas* on loans and financial accommodations extended to directors, officers, stockholders and related interest (DOSRI);

(i) Any Lien constituted for the purpose of guaranteeing an Affiliate's obligation in connection with any contract or agreement that has been assigned to such Affiliate by the Issuer;

(j) The assignment, transfer or conveyance of the Issuer's right to receive any of its income or revenues from Project Receivables (as hereinafter defined);

(k) The assignment, transfer or conveyance of the Issuer's right to receive any income or revenues other than from Project Receivables provided that the constitution by the Issuer of such lien shall not cause the Issuer to exceed the ratio of the amount of indebtedness of the Issuer secured by any lien constituted to the Issuer's non-current assets (as computed in accordance with generally accepted accounting principles in the Philippines and based on the most recent audited financial statements of the Issuer) which ratio shall not be more than 0.5:1;

(l) Any Lien to be constituted on the assets of the Issuer after the date of the Trust Agreement which is disclosed in writing by the Issuer to the Trustee prior to the execution of the Trust Agreement or any Lien for an aggregate loan accommodation not exceeding the equivalent of ten percent (10.0%) of the market value of the consolidated assets of the Issuer as reflected in the latest appraisal report submitted by an independent and reputable appraiser;

(m) Any Lien constituted over the investment of the Issuer in any of its Affiliates, whether such investment is in the form of shares, deposits or advances, to guarantee or secure the obligations of said Affiliates; or

(n) Any Lien constituted for the purpose of guaranteeing an Affiliate's obligation in connection with any contract or agreement (other than for borrowed money).

**15. Events of Default**

The Issuer shall be considered in default under the Bonds and the Trust Agreement in case any of the following events (each an "Event of Default") shall occur and is continuing:

(a) *Payment Default*

The Issuer fails to pay when due and payable any amount which the Issuer is obliged to pay to the Bondholders under the Trust Agreement and the Bonds.

(b) *Representation/Warranty Default*

Any representation and warranty of the Issuer hereof or any certificate or opinion submitted pursuant hereto proves to have been untrue, incorrect, or misleading in any material respect as and when made.

(c) *Other Defaults*

The Issuer fails to perform or violates any other provisions of the Trust Agreement and the Bonds, and such failure or violation is not remediable or, if remediable, continues to be unremedied within the applicable grace period, or in the absence of such grace period, (i) within thirty (30) calendar days from the date of occurrence of the said violation with respect to the covenant to maintain the prescribed financial ratios and with respect to certain events constituting a Change of Law, or (ii) within ten (10) Business Days from the date of occurrence of the said violation with respect to any other covenant or obligation; provided that the Events of Default constituting a breach of a representation or warranty, a payment default, expropriation, insolvency or closure default, or a violation of a negative covenant shall not be remediable.

(d) *Cross Default*

The Issuer fails to effect payment under any contract executed by the Issuer with any bank, financial institution or other person, corporation or entity for borrowed money which constitutes an event of default under said contract, which violation will in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Trust Agreement and the Bonds.

(e) *Expropriation Default*

The Republic of the Philippines or any competent authority thereof takes any action to suspend the whole or the substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets.

(f) *Insolvency Default*

The Issuer becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy, which term shall include, but shall not be limited to: (a) filing of a petition in any bankruptcy, reorganization (other than a labor or management reorganization), winding-up, suspension of payment or liquidation proceeding, or any other proceeding analogous in purpose and effect; (b) appointment of a trustee or receiver of all or a substantial portion of its properties; (c) making of an assignment for the benefit of its creditors; (d) the admission in writing by the Issuer of its inability to pay its debts; or (e) the entry of any order or judgment of any court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization (other than a labor or management reorganization), winding-up, liquidation or appointment of trustee or receiver of the Issuer or a substantial portion of its property or assets.

(g) *Judgment Default*

Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of ten percent (10%) of the consolidated assets of the Issuer or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged or duly bonded within thirty (30) days after the date when payment of such judgment, decree or award is due under the applicable law or agreement.

(h) *Writ and Similar Process Default*

Any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against any material part of the Issuer’s assets and such judgment, writ, warrant or similar process shall not be released, vacated or fully bonded within thirty (30) Business Days after its issue or levy.

(i) *Closure Default*

The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) Business Days except in the case of strikes or lockouts or when necessary to prevent business losses or when due to fortuitous events or force majeure.

## 16. Notice of Default

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that in the case of payment default, as described in Clause 15(a) above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may pick up an important notice regarding the Bonds at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

## 17. Consequences of Default

(a) If any one or more of the Events of Default shall have occurred and be continuing, the Trustee, upon the written instruction of the Majority Bondholders and by notice in writing delivered to the Issuer, or the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare the principal of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding.

(b) This provision, however, is subject to the condition that except in the case of an Event of Default specified as a writ or similar process default, the Majority Bondholders, by written notice to the Issuer and the Trustee may, during the prescribed curing period, if any, rescind and annul such declaration and its consequences upon such terms, conditions and agreement, if any, as they may determine; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

(c) At any time after any Event of Default shall have occurred, the Trustee may:

(i) by notice in writing to the Issuer, the Paying Agent and the Custodian and Registrar, require the Paying Agent and the Custodian and Registrar to:

(aa) act thereafter as agent of the Bondholders represented by the Trustee on the terms provided in the Collecting and Paying Agency Agreement and in the Custodianship and Registry Agreement (with consequential amendments as necessary and save that the Trustee's liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Custodian and Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of the Trust Agreement in relation to the Bonds and available to the Trustee for such purpose) and thereafter to hold all Certificates of Indebtedness, all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or (bb) to deliver all subscriptions or Certificates of Indebtedness and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Custodian and Registrar are not obliged to release by any law or regulation; and

(ii) by notice in writing to the Issuer, require the Issuer to make all subsequent payments in respect of the Bonds to the order of the Trustee. With effect from the issue of any such notice until such notice is withdrawn, provision (aa) above and the Issuer's positive covenant to pay principal plus interest on the Bonds, more particularly set forth in the Trust Agreement, shall cease to have effect.

In case any amount payable by the Issuer under the Bonds, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay Default Interest (as hereinafter defined) on the defaulted amount(s) from the time the amount falls due until it is fully paid.

**18. Default Interest**

In case any amount payable by the Issuer under the Bonds, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay interest on the defaulted amount(s) at the rate of twelve percent (12.0%) per annum (the "Default Interest") from the time the amount falls due until it is fully paid.

**19. Payment in the Event of Default**

The Issuer covenants that upon the occurrence of any Event of Default, then in any such case, the Issuer will pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Default Interest thereon and, in addition thereto, the Issuer will pay to the Trustee the actual amounts to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

**20. Application of Payments**

Any money collected or delivered to the Collecting and Paying Agent and any other funds held by it, subject to any other provision of the Bond Agreements relating to the disposition of such money and funds, shall be applied by the Collecting and Paying Agent in the order of preference as follows: *first*, to the payment to the Trustee, the Collecting and Paying Agent, the Custodian and Registrar of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; *second*, to the payment of the interest in default, in the order of the maturity of such interest with Default Interest;

*third*, to the payment of the whole amount then due and unpaid upon the Bonds for principal and interest, with Default Interest; and *fourth*, the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

**21. Prescription**

Claims in respect of principal and interest or other sums payable hereunder will prescribe unless made within 10 years (in the case of principal or other sums) or five years (in the case of interest) from the date on which payment becomes due.

**22. Remedies**

All remedies conferred by the Trust Agreement and these Conditions to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the provisions of Clause 23 below.

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

**23. Ability to File Suit**

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement or these Conditions to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee, for sixty (60) days after the receipt of such notice and request, shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement or these Conditions to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement and these Conditions, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

## 24. Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Bondholders, waive any past default, except the events of default defined as a payment default, breach of representation or warranty default, expropriation default, insolvency default, or closure default, and its consequences.

In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority of the Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

## 25. Trustee; Notices

(a) *To the Trustee*

All documents required to be submitted to the Trustee pursuant to the Trust Agreement and these Conditions and all correspondence addressed to the Trustee shall be delivered to:

Attention: Ms. Susan Ma. Clara A. Bondoc
Bank of the Philippine Islands
Account Management Department 4
Asset Management and Trust Group
17$^{th}$ Floor BPI Building
Ayala Avenue cor. Paseo de Roxas
Makati City

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

*(b)* *To the Bondholders*

Notices to Bondholders shall be sent to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication; or (iv) on date of delivery, for personal delivery.

(c) *Binding and Conclusive Nature*

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, will (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretion under the Trust Agreement.

**26. Meetings of the Bondholders**

A meeting of the Bondholders may be called at any time and from time to time for the purpose of taking any action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

*(a) Notice of Meetings*

The Trustee may at any time call a meeting of the Bondholders, or the holders of twenty-five percent (25.0%) of the aggregate outstanding principal amount of Bonds may direct the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

*(b) Failure of the Trustee to Call a Meeting*

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of twenty-five percent (25.0%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting within twenty (20) days after receipt of such request, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

*(c)* *Quorum*

The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

*(d)* *Procedure for Meetings*

(i) The Trustee shall preside at all the meetings of the Bondholders unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall, in like manner, move for the election of the chairman and secretary of the meeting.

(ii) Any meeting of the Bondholders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

*(e)* *Voting Rights*

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds as reflected in the Register of Bondholders or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

*(f)* *Voting Requirement*

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum, except as may otherwise be provided in the Trust Agreement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

*(g)* *Role of the Trustee in Meetings of the Bondholders*

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

## 27. Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests, the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

## 28. Governing Law

The Bonds and the Bond Agreements are governed by and are construed solely in accordance with Philippine law.

## 29. Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances ("Change of Law") as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds:

(a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld;

(b) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law is introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents; and

(c) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

If any one or more of the events enumerated as a Change of Law (as defined below) shall occur and be continuing for a period of thirty (30) calendar days, subject to Clause 15(c), the Majority Bondholders, by notice in writing delivered to the Issuer through the

Trustee, after the lapse of the said thirty (30) calendar day period, may declare the principal of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, anything in the Trust Agreement or in the Bonds contained to the contrary notwithstanding, subject to the procedural requirements discussed in these Conditions.

**30. Waiver of Preference**

The obligation created under the Bond Agreements and the Bonds shall not enjoy any priority of preference or special privileges whatsoever over any indebtedness or obligations of the Issuer. Accordingly, whatever priorities or preferences that this instrument may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippine are hereby absolutely and unconditionally waived and renounced. This waiver and renuniation of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the Philippines shall be revoked if it be shown that an indebtedness of the Issuer for borrowed money has a priority or preference under the said provision.

# INTERESTS OF NAMED EXPERTS AND INDEPENDENT COUNSEL

## LEGAL MATTERS

All legal opinion / matters in connection with the issuance of the Bonds which are subject of this Offer will be passed upon by SyCip Salazar Hernandez & Gatmaitan, for the Issue Manager and Underwriter, and Picazo Buyco Tan Fider & Santos for the Company.

The following pertinent documents may be inspected during business hours on any Business Day at the principal office of the Trustee:

1. Trust Agreement
2. Custodianship and Registry Agreement
3. Collecting and Paying Agency Agreement
4. Articles of Incorporation and By-Laws of the Company
5. Registration Statement of the Company
6. Opinions of the legal counsels indicated above

## INDEPENDENT AUDITORS

SyCip Gorres Velayo & Company, independent public accountants and a member firm of Ernst & Young Global, audited Ayala Land's financial statements and schedules for the years ended 31 December 2002, 2003 and 2004, included in this Prospectus.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

# DESCRIPTION OF BUSINESS

**Overview**

Ayala Land is the real estate arm of Ayala Corporation. Ayala Land was spun-off by Ayala Corporation in 1988 to enhance management focus on Ayala Corporation's existing real estate business and to highlight the value of assets, management and capital structure of the real estate business. The SEC issued Ayala Land its certificate of incorporation on June 30, 1988. The Ayala Land shares were offered to the public in an initial public offering (IPO) of primary and secondary shares in 1991 and subsequently listed on the Makati and Manila Stock Exchanges (predecessors of the PSE). The IPO diluted Ayala Corporation's effective interest in Ayala Land to 88.2%. Since then, Ayala Corporation's effective interest has been further reduced to about 62.1% as of September 30, 2005 through, among others, the exercise of stock options by the respective employees of Ayala Corporation and Ayala Land, exchanges under Bonds due 1996 and Bonds due 2001, disposal of Ayala Land shares by Ayala Corporation and Ayala Land's issuance of new shares in relation to its acquisition of interest in companies owning properties in Canlubang, Laguna in 1993. Further reduction of Ayala Corporation's equity in Ayala Land has also been effected by the conversions to Ayala Land common B shares of the entire ₱3 billion convertible Long Term Commercial Paper publicly issued in December 1994.

Ayala Land's net worth exceeds ₱25.0 million and has been in business for more than three (3) years. It is listed on the PSE with a market capitalization of ₱86.3 billion as of September 30, 2005 based on Ayala Land's common share closing price as of that date.

**Ayala Land's Business**

Ayala Land is one of the largest real estate conglomerates in the Philippines engaged principally in the planning, development, subdivision and marketing of large-scale communities having a mix of residential, commercial, leisure and other uses. Ayala Land, through various subsidiaries, is also engaged in the development and sale of industrial lots, as well as the development of hotel and serviced apartments. Ayala Land also constructs office and/or residential condominiums and buildings for sale or lease. It has continued to develop and sell high-end house-and-lot packages in its residential developments and, through its wholly-owned subsidiary LPHI, begun to develop and sell mass housing units and farm/hacienda lots. The Company has also begun to tap the middle income urban residential segment of real estate industry through its core-mid residential wholly-owned subsidiary, Community Innovations, Inc. ("CII"). Recently, Ayala Land ventured into leisure community development with the development of Anvaya Cove.

Ayala Land is also engaged in the development of commercial centers and leases to third parties retail space and land therein. Through its subsidiaries, Ayala Theaters Management, Inc. and Five Star Cinema, Inc.; it also operates movie theatres in these commercial centers and has ventured into the operation of food courts and entertainment facilities to complement its commercial center operations.

Ayala Land, through its wholly-owned subsidiary MDC, which is primarily responsible for horizontal land development of the projects of Ayala Land and its subsidiaries, also provides third party construction services for industrial building and government infrastructure projects.

The Company also provides property management services through another wholly-owned subsidiary, Ayala Property Management Corporation.

Ayala Land is also engaged in information technology-related ventures through Ayala Landnet.com, a 50-50 joint venture with Ayala Corporation's iAyala Company, Inc. The joint venture is responsible for the launch in June 2000 of myAyala.com, an online shopping mall.

In summary, Ayala Land's business lines are as follows:

- Shopping centers – development of commercial centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these commercial centers; management and operations of malls which are co-owned with partners;
- Corporate business – development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings;
- Hotels – development and operation of hotels and serviced apartments; lease of land to hotel tenants outside Ayala Center;
- Residential developments – sale of high-end and middle-income residential lots and units, mass housing units and lots, and leisure community developments; lease of residential units; marketing of residential developments under joint venture;
- Services – construction, property management and waterworks operations;
- Landbanking – acquisition, development and sale of large, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center

In addition to above business lines, Ayala Land also derives other income from its investment activities and sale of non-core assets.

**Ayala Land's Business Lines**

Ayala Land's projects are segregated into various business lines, based on their operations. These business lines and certain current undertakings of each of them are described below.

***Shopping Centers***

Ayala Land owns and manages Ayala Center, its biggest shopping center located in Makati City. Moreover, it has a 50% interest in the Alabang Town Center, adjacent to the Ayala Alabang Village residential community south of Makati. Through Cebu Holdings, Inc. (CHI), Ayala Land has constructed a shopping center in Cebu Business Park known as Ayala Center Cebu, which was formally opened in November 1994. In 1999, 30%-owned Pavilion Mall in Laguna commenced operations. In the second quarter of 2001, the retail section of the Ayala Station of MRT-III commenced operations. In December 2001, Metro Point, which is located at the corner of EDSA and Taft Avenue in Pasay City, was opened to the public while the redeveloped Greenbelt 2 and Greenbelt 3 opened in 2002 and Greenbelt 4 in 2004. In addition, Ayala Land also manages about 80,000 sqm of retail space in Bonifacio Global City. In September 2004, Ayala Land opened Phase 1A of Market!Market! with 117,000 sqm of leasable space. Phase 1B of the project, which consists in 34,000 sqm, commenced operations in October 2005.

Ayala Land's on-going retail project is North Triangle Commercial Center, a 200,000-sqm mall being constructed at the main depot of MRT-3 in North EDSA, Quezon City. The mall will be completed by 2007.

As of September 30, 2005, Ayala Land's shopping centers occupy over 70 hectares of land and have a gross leasable area of approximately 1 million sqm consisting of offices, retail shops, hotels and theaters. Excluding hotel land tenants, total retail gross leasable area is about 700,000 sqm. No individual tenant accounts for more than 10% of total commercial rental revenues. Ayala Land's Ayala Center, which has a total land area of approximately 36 hectares, also houses the 6750 Ayala Avenue office building, four international hotels (Hotel InterContinental Manila, New World Renaissance Hotel, Dusit Hotel Nikko and Shangri-La Hotel), and Oakwood, a two-tower serviced apartments. Ayala Center alone accounts for the bulk of Ayala Land's shopping center revenues.

Ayala Land operates movie theater complexes with a total of 36 screens and one live performance theater situated in its shopping centers. The movie theaters are operated primarily as a means of attracting customers to its shopping centers. The theaters are managed by Ayala Theaters Management, Inc. and Five Star Cinema, Inc., wholly-owned subsidiaries of Ayala Land.

Leases for retail space within the shopping centers are generally short-term, ranging from one to five years for the initial lease, renewable annually. Land leases, on the other hand, have longer terms, usually up to 50 years in the case of hotel tenants. In general, rental rates for retail space equal the higher of (i) a basic rent plus a percentage of the tenant's gross sales, or (ii) a specified minimum amount. Rental rates for leases on hotel and department store sites are generally based on a percentage of gross sales.

### *Corporate Business*

Ayala Land's corporate business group contributed 3% to 9M2005 consolidated revenues. In 2002, 2003 and 2004, this business line accounted for 4%, 5% and 4%, respectively.

In addition to its office condominium projects intended for sale, Ayala Land likewise owns office space for lease to generate rental income. Total gross leaseable area in Ayala Land's five traditional office buildings for lease is approximately 70,000 sqm. Ayala Land's office buildings for lease continue to post high occupancy rates. The spaces for lease in its office buildings – i.e., Tower One and Exchange Plaza, Makati Stock Exchange Building, 6750 Ayala Avenue, Ayala-FGU Center and Ayala Life-FGU Center Alabang - registered an average occupancy rate of 92% in 2002, 95% in 2003, 94% in 2004 and 92% in 9M2005.

The Company is also tapping the growing BPO opportunities through its build-to-suit office buildings. Ayala Land completed PeopleSupport Center in April 2005 where over 15,000 sqm of office space are being leased out. Convergys and Infonxx Building were completed in October and November 2005, respectively.

Ayala Land's industrial estate development, Laguna Technopark, likewise contributed to corporate business revenues.

### *Hotels*

The Company's hotel business contributed 8% to 9M2005 revenues. Over the past three years, its revenue contributions were 11% in 2002, and 9% in 2003 and 2004.

Ayala Land owns 50% of Ayala Hotels, Inc. (AHI) with the balance held by Ayala Corporation. AHI owns 100% of the 338-room Hotel InterContinental Manila (which is built on land leased by AHI from Ayala Land). AHI also has a 63% stake in Cebu City Marriott Hotel and a 60% stake in Oakwood Premier Ayala Center, a 306-unit serviced apartments. The latter soft-opened in November 1999 and commenced commercial operations in February 2000. In addition, AHI owns the land on which the Peninsula Manila and Mandarin Oriental hotels are located.

### *Residential Developments*

The Company's various residential developments accounted for 39% of 9M2005 revenues. In 2002, 2003 and 2004, this business line contributed 40%, 47% and 51%, respectively.

#### *High-end lots*

The Company is well-known for its prime residential subdivision projects. Ayala Land continues to roll out succeeding phases at the Ayala Westgrove Heights and Ayala Greenfield Estates. As of September 30, 2005, 93% of the 1,683 cumulative lot offering at Westgrove has been taken up while 87% of the 657 lots in Greenfield have been taken up. Also contributing to land sales over the past three years and nine months were new subdivision projects such as Ayala Hillside Estates, Plantazionne Verdana Homes, Tamarind Cove, Paseo de Magallanes and Sonera.

#### *High-end residential units*

Sale of residential projects, namely Ferndale Homes, One Roxas Triangle and Montgomery Place, One Legazpi Park, The Residences at Greenbelt and Serendra accounted for the bulk of revenues from high-end units over the past three years and nine months. Also contributing to revenues were rentals derived from leased units at The Residences townhomes and One Roxas Triangle.

### *Leisure*

In September 2002, Ayala Land created the Leisure and Lifestyle Communities Group (LLCG) to develop real estate products with a leisure component. The move recognizes growing niche market for leisure activities. It aims to further strengthen Ayala Land's positioning as the most diversified real estate company in the country.

In July 2005, LLCG launched its first leisure community project, Anvaya Cove, located in Morong, Bataan. This 320-hectare development is a high-end seaside residential resort community which will offer a wide array of real estate options including residential lots, villas, and beach and nature club, among others.

### *Middle-income Housing*

Community Innovations, Inc. (CII), Ayala Land's middle-income housing subsidiary, launched Verdana Homes in 2002 as its maiden project. The project has been fully taken up. CII also launched the first of a 3-tower residential complex, The Columns, in November, 2002. With limited remaining inventory at the first tower, the second tower was launched in March 2003 and the third tower in October 2003. By September 30, 2005, the first tower was fully taken up while the second and third towers were 91% and 94% taken up, respectively. In February 2004, CII launched Verdana Mamplasan. As of September 30, 2005, 52% of 417 lots and 22% of 36 house-and-lots have been taken up.

Two projects launched in November 2005 will further build up revenues from middle-income housing, The Columns at Legazpi in Makati and Celadon Residences in Manila.

### ***Mass Housing***

Mass housing sales include the development and sale of lots and constructed houses, as well as lots only, in residential subdivisions specifically targeted at the mass housing market. The houses were constructed on-site out of precast concrete sections that may be expanded and upgraded.

Ayala Land, through its mass housing arm LPHI, continued to widen its range of mass housing products as it ventured into the low-cost housing segment in the third quarter of 2000 and farm estate lots in 2002 and mid-rise condominium in 2Q2003.

Currently, LPHI has 20 ongoing projects, including two mid-rise residential condominium complexes and farm estate lots project, in 14 different locations.

To be launched in December 2005 is Avida Towers, the mass housing component of the joint venture with Manila Jockey Club in Manila.

### ***Services***

Revenues from services accounted for 10% of Ayala Land's consolidated revenues in 9M2005. Over the past three years, services contributed 10% in 2002, and 7% in 2003 and 2004.

A wholly owned subsidiary of Ayala Land, Makati Development Corporation (MDC) is engaged in engineering, design and construction of vertical and horizontal developments, such as roads, bridges and utilities. MDC is responsible for horizontal construction works at Ayala Land's land developments and is likewise engaged in private industrial and government infrastructure projects. MDC has also started to develop residential condominium buildings and mall projects.

Ayala Property Management Corporation, a wholly owned subsidiary of Ayala Land, is engaged in property management, principally for Ayala Land and its subsidiaries. It is, however, actively seeking property management contracts with other entities outside the ALI group.

Ayala Land's waterworks services pertain mainly to the operations of the water facilities in its developments, including Ayala Alabang Village and Laguna Technopark.

### ***Landbanking***

Ayala Land's landbanking business accounted for 2% of 9M2005 revenues. Over the past three years, it contributed 2% in 2002, and 6% in 2003 and 2004.

Currently, landbanking revenues are mainly from Ayala Land's override on share of sales in properties made available for development by CII (The Columns) and LPHI (One Aeropolis, Sta.

Catalina Village and Villa Sta. Cecilia). Rentals on gas station sites and carparks (outside Ayala Center) also contribute to landbanking revenues.

Over the long-term, revenues from landbanking will build-up as the Company starts to develop and sell its Canlubang project into a large, mixed-use, masterplanned community.

**Strategy**

Ayala Land's strategy is to maintain and enhance its position as the leading property developer in the Philippines. Ayala Land intends to continue its traditional activity of developing large-scale, mixed-use integrated communities while diversifying its revenue base. Ayala Land hopes to achieve this by: (i) increasing its rental activities, where it has locked-in growth in gross leasable area with new malls of various formats and (ii) expanding its real estate business into different markets and geographic areas with increasing presence in the core-mid and mass housing segments where it believes there are significant growth opportunities or where proposed developments complement its existing real estate business. Furthermore, Ayala Land is expanding its service businesses, with external contracts accounting for an increasing share of its services income.

*Residential Developments*

Ayala Land's residential land and condominium sales business is predominantly, but not exclusively, targeted at the high-end market. Ayala Land believes that there is substantial demand for middle-income and mass housing in the Philippines and a lack of good quality supply at affordable prices. Thus, in addition to its high-end products, Ayala Land, through LPHI, is developing certain properties that target the mass housing market. Through CII, Ayala Land is also tapping the middle-income residential segment.

*Shopping Centers*

The leasing of retail space and land to retail and hotel operators continue to generate rental revenues for Ayala Land. These revenues are generally less cyclical than revenues from Ayala Land's traditional land and residential unit sales business. Thus, aside from pursuing, by itself or through its subsidiaries or with other partners, the development of new shopping center projects such as the MetroPoint at EDSA-Taft, MRT Ayala Station and Market!Market! along C-5 road, Ayala Land expanded the amount of retail space in its existing development at Greenbelt Mall. In addition, Ayala Land is developing the North Triangle Commercial Center in Quezon City. Ayala Land is managing its commercial centers in a manner designed to increase tenants' sales to increase rental income.

*Corporate Business*

Ayala Land also offers office space for sale or rent. The Company's office leasing portfolio is expected to significantly grow as it develops more build-to-suit office buildings catering to the BPO markets.

*Services*

Reliable, high-quality construction and property management services provided by wholly-owned subsidiaries Makati Development Corporation (MDC) and Ayala Property Management Corporation (APMC) enhance the Company's competitive advantage in its various business lines. Moving forward, Ayala Land is raising the bar in terms of quality and cost of these services. MDC and APMC are also actively pursuing new service contracts with parties outside the ALI Group.

*Land bank*

As of September 30, 2005, Ayala Land has a total of about 4,070 hectares in its landbank. To realize and maximize value, the Company is updating its masterplan for its key holdings such as the Makati Central Business District, Bonifacio Global City and Canlubang.

Meanwhile, some of the Company's properties are being offered for sale in line with its asset rationalization program that will not only improve return on assets, but also generate additional liquidity.

Ayala Land expects to continue to form joint ventures as it acquires and develops large tracts of land. It believes that by way of a joint development, in which sellers of land are offered the right to retain an interest in the development of a project, it will increase opportunities for Ayala Land in positioning for large tracts of undeveloped land. Ayala Land's extensive land bank in the Calabarzon region is mostly under joint venture arrangements with different landowners. This arrangement works to both Ayala Land's and joint venture partners' advantage as it allows Ayala Land to add up to its increasing land bank at a minimal initial cash outlay versus an outright cash purchase of the land and at the same time allow the joint venture partner to partake in the increased value of the property upon development and sale of the project and the realization of future earnings.

*Sales and Distribution*

Ayala Land is intensifying its selling efforts. Prior to the establishment of Ayala Land Sales, Inc. (ALSI"), Ayala Land relied on its in-house sales group and availed of the services of independent accredited real estate brokers to market and sell its projects. The exclusive and dedicated sales and marketing support by ALSI is expected to provide Ayala Land an advantage over its competitors which continue to use independent outside real estate brokers and agents. In addition, the Company formed Ayala Land International Sales, Inc. (ALISI") to further broaden its reach and actively tap the overseas markets.

**Competition**

Ayala Land is subject to significant competition in each of its principal businesses although Ayala Land considers itself the most diverse property development company in the market without direct equivalent competitors. However, companies including, but not limited to, SM Prime of the Sy family, Robinsons Land of the Gokongwei Family, Filinvest Land of the Gotianun Family, as well as Megaworld and Empire East have each established a presence in certain of Ayala Land's business lines. A description of the competition faced by Ayala Land is discussed in more detail in the section on "Risk Factors and Other Information" found on page 18 of this Prospectus.

**Ayala Land's Projects**

The following tables set forth the type and location of Ayala Land's ongoing, planned and completed projects as of September 30, 2005:

| PROJECTS UNDER DEVELOPMENT | TYPE | LOCATION |
|---|---|---|
| Ayala Westgrove Heights | Residential lots | Cavite |
| Ayala Greenfield Estates | Residential lots | Laguna |
| Ayala Southvale Sonera | Residential lots | Las Pinas/Cavite |
| Ayala Heights Cebu (dev't on hold) | Residential lots | Cebu |
| Ayala Northpoint | Residential lots | Bacolod |
| Plantazionne Verdana Homes | Residential lots | Bacolod |
| One Legazpi Park | Residential condominium | Makati |
| The Residences at Greenbelt-Laguna Tower | Residential condominium | Makati |
| Anvaya Cove | Residential lots/Club shares | Bataan |
| The Residences at Greenbelt-San Lorenzo Tower | Residential condominium | Makati |
| The Columns | Residential condominium | Makati |
| Serendra | Residential condominium | Taguig |
| One Aeropolis (Towers 1-3) | Mid-rise residential condo | Parañaque |
| Aeropolis 2 New Manila (Tower 1) | Mid-rise residential condo | Quezon City |
| Montgomery Place / The Legacy | Townhomes | Quezon City |
| Verdana Homes Mamplasan | Core-mid lots; house & lots | Laguna |
| Santarosa Estates | Middle-income house & lots | Laguna |
| St. Alexandra Estates | Middle-income house & lots | Antipolo |
| St. Gabriel Heights | Affordable housing | Antipolo |
| Sta. Catalina Village | Affordable housing | Cavite |
| Villa Sta. Cecilia | Affordable housing | Cavite |
| San Antonio Heights | Affordable housing | Batangas |
| Santa Isabel Village | Affordable housing | Lucena |
| San Francisco Village | Affordable housing | Naga |
| Riego de Dios Village | Affordable housing | Cavite |
| San Rafael Estates | Affordable lots | Batangas |
| San Juan Estates | Affordable lots | Lucena |
| San Ignacio Estates | Affordable lots | Naga |
| Villa Sta. Monica | Affordable lots | Lipa, Batangas |
| Sta. Arcadia Village | Affordable lots | Cabanatuan |
| Hacienda Sta. Monica | Farm/hacienda lots | Lipa, Batangas |
| Saint Joseph Homes | Low-cost housing | Cavite |
| San Alfonso Homes | Low-cost housing | Naga |
| Santa Barbara Homes | Low-cost housing | Tayabas |
| Market!Market! (Ph1B) | Commercial Center | Taguig |
| North Triangle Commercial Center | Commercial Center | Quezon City |
| Convergys | Office Building | Makati |
| Infonxx | Office Building | Laguna |
| Bonifacio Triangle | Business lots | Taguig |
| Laguna Technopark (Phase 6) | Industrial lots | Laguna |

| PLANNED PROJECTS | TYPE | LOCATION |
|---|---|---|
| Celadon Residences | Townhouse Units | Manila |
| Avida Towers | Residential Condo | Manila |
| The Columns at Legazpi | Residential Condo | Makati |

| | | |
|---|---|---|
| The Residences at Greenbelt (Tower 3) | Residential Condo | Makati |
| One Aeropolis (Towers 4-11) | Mid-rise residential condo | Paranaque |
| Aeropolis 2 New Manila (Towers 2*-5) | Mid-rise residential condo | Quezon City |
| Canlubang Project | Mixed-use | Laguna |
| Amara* | Residential lots | Cebu |
| Cebu Civic & Trade Center (Phase II) | Business lots | Cebu |
| FBDC BPO Building | Office Building | Taguig |
| Pampanga Project | Affordable Housing | Pampanga |
| Avida – San Isidro | Affordable Housing | Batangas City |

* launched in October 2005

| COMPLETED PROJECTS | TYPE | LOCATION |
|---|---|---|
| Makati Subdivisions | Residential subdivision | Makati |
| Ayala Alabang Village | Residential subdivision | Muntinlupa |
| Ayala Heights Village | Residential subdivision | Quezon City |
| Ayala Hillside Estates | Residential lots | Quezon City |
| Tamarind Cove | Residential lots | Alabang |
| Paseo de Magallanes | Residential & commercial lots | Makati |
| Ferndale Homes | High-end house & lots | Quezon City |
| Bonifacio Ridge | Residential condominium | Makati |
| The Pineridge | Residential condominium | Baguio City |
| The Regency at Salcedo | Residential condominium | Makati |
| One Roxas Triangle | Residential condominium | Makati |
| One Salcedo Place | Residential condominium | Makati |
| Two Salcedo Place | Residential condominium | Makati |
| Three Salcedo Place | Residential condominium | Makati |
| Asia Tower | Residential condominium | Makati |
| Park Tower One | Residential condominium | Cebu |
| Park Tower Two | Residential condominium | Cebu |
| The Residences at Greenbelt | Townhomes | Makati |
| Ayala Heights Townhomes | Townhouses | Quezon City |
| Woodside Homes | Townhouses | Quezon City |
| Citibank Tower | Office Building | Makati |
| Tower One, Ayala Triangle | Office Building | Makati |
| Makati Stock Exchange Building | Office Building | Makati |
| Cebu Holdings Center | Office Building | Cebu |
| 6750 Ayala Avenue | Office Building | Makati |
| Ayala Life – FGU Center | Office Building | Makati |
| Ayala Life – FGU Center Cebu | Office Building | Cebu |
| Ayala Life – FGU Center Alabang | Office Building | Alabang |
| PeopleSupport Center | Office Building | Makati |
| San Jose Village | Middle-income house & lots | Laguna |
| Santarosa Village | Middle-income house & lots | Laguna |
| San Isidro Village | Middle-income house & lots | Batangas |
| Garden Ridge Village | Middle-income house & lots | Cebu |
| Verdana Homes | Core-mid lots; house & lots | Las Piñas/Cavite |
| Verdana Village Center | Commercial lots | Cavite |
| Rancho Imperial | Socialized housing | Cavite |
| Sampaguita Village | Socialized housing | Cavite |

| COMPLETED PROJECTS | TYPE | LOCATION |
|---|---|---|
| Makati Central Business District | Business lots | Makati |
| Madrigal Business Park | Business lots | Muntinlupa |
| McKinley Business Park | Business lots | Taguig |
| Cebu Business Park | Business lots | Cebu |
| Cebu Civic & Trade Center (Phase I) | Business lots | Cebu |
| Laguna Technopark (Phase 1-5) | Industrial lots | Laguna |
| Ayala Center Makati[1] | Commercial center | Makati |
| Magallanes Commercial Center [2] | Commercial center | Makati |
| San Antonio Plaza Arcade | Commercial center | Makati |
| EDSA-MRT Ayala Station | Commercial center | Makati |
| Metro Point | Commercial center | Pasay |
| Alabang Town Center | Commercial center | Muntinlupa |
| Ayala Center Cebu | Commercial center | Cebu |
| Pavilion Mall | Commercial center | Laguna |
| Market!Market! (Ph1A) | Commercial center | Taguig |
| Hotel Inter-Continental Manila | Hotel | Makati |
| Insular Century Hotel Davao [3] | Hotel | Davao |
| Cebu City Marriott Hotel | Hotel | Cebu |
| Oakwood Premier Ayala Center | Hotel-serviced apartments | Makati |
| New World Hotel | Hotel-Land rent | Makati |
| Dusit Hotel | Hotel-Land rent | Makati |
| Shangri-La Hotel Manila | Hotel-Land rent | Makati |
| Mandarin Oriental Hotel | Hotel-Land rent | Makati |
| Peninsula Manila Hotel | Hotel-Land rent | Makati |
| Makati Sports Club | Sports Club | Makati |
| City Sports Club Cebu | Sports Club | Cebu |
| Alabang Country Club | Country Club | Alabang |

23 Greenbelt area for further redevelopment.
2-Redeveloped as residential/ commercial lots.
3-Sold in 1999.

*Take-Up Rates*

The take-up rate represents the percentage of units available for sale for which the buyer has paid at least a reservation fee. Revenue from sales of substantially completed projects where collection of sales price is reasonably assured is accounted for using the full accrual method; otherwise, the installment method is used.

The following table provides summary information on take-up rates of Ayala Land's land and condominium sales projects under development and for sale as of September 30, 2005.

| LAND SALES | TOTAL PROJECT AREA | LAUNCHED/ SALEABLE LOTS | TAKE-UP RATE |
|---|---|---|---|
| **Residential Subdivisions** | | | |
| Ayala Westgrove Heights (6 phases) | 400 hectares | 1,683 | 93% |
| Ayala Greenfield Estates (4 phases) | 500 hectares | 657 | 87% |
| Ayala Northpoint (2 Phases) | 122 hectares | 496 | 70% |
| Ayala Hillside Estates (3 phases-Ayala Land share) | 23 hectares | 145 | 99% |

| | | | |
|---|---|---|---|
| Tamarind Cove, Ayala Alabang Village (Ayala Land share) | 1.7 hectares | 9 | 100% |
| Sonera | 22 hectares* | 182 | 63% |
| Paseo de Magallanes (residential) Phase 1 | 2.3 hectares | 48 | 100% |
| Paseo de Magallanes (residential) Phase 2 | 0.9 hectares | 17 | 100% |
| Ferndale Homes (lots only) | 8.5 hectares | 142** | 100% |
| Verdana Homes (lots only) Phase 1 & 2 | 25 hectares*** | 468 | 100% |
| Plantazione Verdana Homes (2 Phases) | 21.5 hectares | 345 | 69% |
| Verdana Mamplasan (Phase 1) – lots | 60 hectares | 417 | 52% |
| **Business and Industrial Lots** | | | |
| Madrigal Business Park | 25 hectares | 82 lots | 96% |
| Cebu Business Park | 50 hectares | 120 lots | 86% |
| Cebu Civic & Trade Center (Phase 1) | 24 hectares | 46 lots | 52% |
| Laguna Technopark (Phase 1-6) | 400 hectares | 305 hectares (saleable area) | 98% |
| Paseo de Magallanes (commercial) Phase 1 | 3.3 hectares | 22 lots | 100% |
| Paseo de Magallanes (commercial) Phase 2 | 0.95 hectares | 6 lots | 100% |
| McKinley Business Park | 2.1 hectares | 17 | 100% |
| Bonifacio Triangle | 5 hectares | 36 lots | 53% |
| Verdana Village Center | 18 hectares | 28 | 75% |

| CONDOMINIUM SALES | AVAILABLE UNITS | COMPLETION RATE | TAKE-UP RATE |
|---|---|---|---|
| **Residential Condominiums & Townhouses** | | | |
| One Roxas Triangle | 182 | 100% | 86% |
| One Legazpi Park | 369 | 99% | 99% |
| The Columns-Tower 1 | 284 | 100% | 100% |
| The Columns-Tower 2 | 284 | 79% | 91% |
| The Columns-Tower 3 | 284 | 42% | 94% |
| The Residences at Greenbelt-San Lorenzo Tower | 383 | 3% | 39% |
| The Residences at Greenbelt-Laguna Tower | 249 | 37% | 93% |
| Bonifacio Ridge | 288 | 100% | 90% |
| Ferndale Homes (house and lot) | | | |
| Phases 1-3A | 155** | 100% | 100% |
| Montgomery Place | | | |
| Phases 1-2 | 270 | 100% | 100% |
| Phase 3 (The Legacy) | 71 | 63% | 45% |
| Verdana Homes (house and lot) Phases 1-2 | 88 | 100% | 100% |
| Verdana Homes Mamplasan (House and Lot) | 36 | 6% | 22% |
| Serendra – District 1 | 486 | Ph1 = 35%, Ph2=14% | 65% |
| Serendra – District 2 | 788 | Section A = 41%, Section B = 5% | 77% |
| **Office Condominiums** | | | |
| Ayala Life-FGU Center (Makati) | 26,208 sq. m.**** | 100% | 100% |
| Ayala Life-FGU Center (Alabang) | 4,829 sq. m.***** | 100% | 100% |

* - part of 179-ha. Ayala Southvale
** - Ayala Land owned units only
*** - Total project area for lots only and house-and-lots phases.
**** - Leasable area of about 4,650 sqm also being offered for sale.
*****- Leasable area of 617 sqm also being offered for sale.

**Project and Capital Expenditures (Consolidated)**

Ayala Land's consolidated project and capital expenditures for 2003 and 2004 amounted to ₱8.2 billion and ₱8.1 billion, respectively. In 9M2005, Ayala Land spent about ₱4.8 billion or 35% of the ₱13.6 billion budget for the whole year. The following table sets out the distribution of Ayala Land's project and capital expenditures:

| | 2003A | 2004A | 9M2005 | 2005 Budget |
|---|---|---|---|---|
| Residential buildings/townhouses | 19% | 47% | 55% | 51% |
| Residential subdivisions | 24% | 15% | 18% | 20% |
| Commercial centers/offices/etc. | 25% | 29% | 27% | 26% |
| Equity investments | 32% | 9% | 0% | 3% |
| Total | 100% | 100% | 100% | 100% |

**Subsidiaries and Affiliates**

As of September 30, 2005, there are forty six (46) companies which are either subsidiaries or affiliates of Ayala Land. Certain details and the percentage of direct and effective ownership held by Ayala Land of each of these companies are described below:

| Business Line | Subsidiary or Affiliate | Date of Incorporation | % Direct | % Effective |
|---|---|---|---|---|
| *Hotels* | Ayala Hotels, Inc. | 4/11/1991 | 50.0 | 50.0 |
| *Construction* | Makati Development Corp. | 8/15/1974 | 100.0 | 100.0 |
| *Property Management* | Ayala Property Management Corp. | 7/19/1951 | 100.0 | 100.0 |
| *Mass Housing* | Laguna Properties Holdings, Inc. | 10/30/1990 | 100.0 | 100.0 |
| *Industrial Park* | Laguna Technopark, Inc. | 11/15/1990 | 61.0 | 61.0 |
| *Property Development* | Community Innovations, Inc. | 09/29/1995 | 100.0 | 100.0 |
| | Aurora Properties, Inc. | 12/03/1992 | 70.0 | 70.0 |
| | Vesta Property Holdings, Inc. | 10/22/1993 | 70.0 | 70.0 |
| | Ayala Greenfield Development Corp. | 12/05/1997 | ----- | 50.0 |
| | Cebu Holdings, Inc. | 10/09/1998 | 47.2 | 47.2 |
| | Cebu Property Ventures & Devt. Corp. | 08/02/1990 | 7.8 | 43.7 |
| | Roxas Land Corporation | 03/18/1996 | 50.0 | 50.0 |
| | Bonifacio Land Corp. | 10/20/1994 | ----- | 32.1 |
| | Fort Bonifacio Development Corp. | 06/11/1996 | ----- | 17.6 |
| | Serendra, Inc. | 06/07/1994 | 28.1 | 67.0 |
| | Ceci Realty, Inc.* | 08/22/1974 | 62.0 | 62.0 |
| *Property Sales* | Ayala Land Sales, Inc. | 03/06/2002 | 100.0 | 100.0 |
| | Ayala Land International Sales, Inc. | 03/29/2005 | 100.0 | 100.0 |
| *Theater Management* | Ayala Theaters Management, Inc. | 08/10/1984 | 100.0 | 100.0 |
| | Five Star Cinema, Inc. | 12/18/2000 | 100.0 | 100.0 |
| *Land Holding* | Amorsedia Development Corp. | 03/06/1996 | 100.0 | 100.0 |
| | Red Creek Properties, Inc. | 10/17/1994 | 100.0 | 100.0 |
| | Crimson Field enterprises, Inc. | 10/26/1995 | 100.0 | 100.0 |
| | Streamwood Property, Inc. | 8/21/1996 | 100.0 | 100.0 |
| | Piedmont Property Ventures, Inc. | 8/28/1996 | 100.0 | 100.0 |
| | Stonehaven Land, Inc. | 8/21/1996 | 100.0 | 100.0 |
| | Buendia Landholdings, Inc. | 10/27/1995 | 100.0 | 100.0 |
| | Bridgebury Realty Corp. | 12/15/2004 | 100.0 | 100.0 |
| | Oxbury Realty Corp.** | 12/15/2004 | 100.0 | 100.0 |
| *Food Court Operations* | Food Court Co., Inc. | 11/14/1997 | 100.0 | 100.0 |
| *Entertainment Center Operations* | Leisure & Allied Industries Phils. Inc. | 10/10/1997 | 50.0 | 50.0 |
| *Infrastructure* | Ayala Infrastructure Ventures, Inc.*** | 02/29/1996 | 100.0 | 100.0 |
| *Commercial Center* | Alabang Commercial Corp. | 12/22/1981 | 50.0 | 50.0 |

| Business Line | Subsidiary or Affiliate | Date of Incorporation | % Direct | % Effective |
|---|---|---|---|---|
| | Lagoon Development Corp. | 08/30/1996 | 30.0 | 30.0 |
| | Ayala Land – CII Development Corp. | 08/06/1997 | 50.0 | 50.0 |
| | Station Square East Commercial Corp. | 03/17/1989 | 72.2 | 72.2 |
| | North Triangle Depot Commercial Corp. | 12/06/2000 | 49.0 | 49.0 |
| *IT-related Ventures* | ALInet.com, Inc. | 05/5/2000 | 100.0 | 100.0 |
| | MyAyala.com, Inc. | 03/31/2000 | ----- | 50.0 |
| *Holding Company* | CMPI Holdings, Inc. | 05/30/1997 | 60.0 | 60.0 |
| | Emerging City Holdings, Inc. | 07/19/2002 | 50.0 | 50.0 |
| | Columbus Holdings, Inc. | 07/19/2003 | ------ | 50.0 |
| | Berkshire Holdings, Inc. | 12/04/2002 | 50.0 | 50.0 |
| | Regent Time International Limited | 03/28/2003 | 100.0 | 100.0 |

* formerly Ayala Realty Development Corporation; renamed in 2004.
** Oxbury shares swapped with shares of Crans Montana Property Holdings Corp. of Zuellig Group in November 2005.
*** ownership pertains to common shares; preferred shares sold in 1Q05.

## Joint Venture Companies

Ayala Land has formed joint venture companies described as follows:

*Columbus Holdings, Inc.* Ayala Land has a 50% stake in Columbus Holdings through Emerging City Holdings, Inc. and Berkshire Holdings, Inc., joint venture companies established with Evergreen Holdings, Inc. of the Unilab Group. Through Columbus Holdings, Ayala Land and Evergreen acquired in 2Q2003 a controlling stake in Bonifacio Land Corporation which, in turn, owns the majority stake in Fort Bonifacio Development Corporation, developer of Fort Bonifacio Global City.

*North Triangle Depot Commercial Corporation (NTDCC).* Ayala Land has an effective stake of 49% in NTDCC which is developing the North Triangle Commercial Center at the main depot of MRT 3 on a 16-hectare property in Quezon City. Ayala Land will manage this commercial development project.

*Roxas Land Corporation (RLC)*. Ayala Land has a 50% interest in RLC which developed One Roxas Triangle, a 182-unit high-rise, luxury residential condominium in Makati City. Hong Kong Land (PPI) B.V. and Bank of the Philippine Islands, acting on behalf of certain trust and/or managed accounts, have a 40% and 10% interest in Roxas Land, respectively. Launched for sale to the public in November 1996, construction of One Roxas Triangle was completed in September 2001.

*Makati Property Ventures, Inc. (MPVI).* A 60-40 joint venture company formed with Rodamco Philippines B.V. of the Netherlands, MPVI constructed two towers of serviced apartments now known as the Oakwood Premier Ayala Center in Makati. The project commenced construction in 1996 and was completed in the third quarter of 1999. It soft-opened in November 1999 and started commercial operations in February 2000.

*MyAyala.com, Inc.* Wholly-owned subsidiary, Ayala Landnet.com, Inc., together with Ayala Corporation's iAyala, Inc., formed a 50-50 joint venture known as MyAyala.com which is an online shopping portal launched in June 2000. The site, through Sureseats.com, also provides for the booking of cinema tickets online.

*Leisure and Allied Industries Philippines, Inc.,* a 50-50% joint venture was established between LAI Asia Pte, Ltd. and Ayala Land to engage in the operation and management of family entertainment centers in the Philippines. LAI Asia is an Australian firm engaged in the business of managing family entertainment centers.

*Laguna Phenix Structures Corporation.* A 50-50% joint venture company was established between Ayala Land's wholly-owned subsidiary, LPHI and Maissons Individuelles, S.A., a French firm, to form Laguna Phenix Structures Corporation (Laguna Phenix). Laguna Phenix manufactures and constructs Phenix houses in the Philippines.

*Station Square East Commercial Corporation (SSECC).* 72.2% owned by Ayala Land, SSECC is a joint venture company co-owned with Galapagos, Inc. and Longstreet Holdings, Inc. SSECC broke ground in 2002 for Market!Market!, a value mall along C-5 Road in Taguig.

*Laguna Technopark, Inc. (LTI)* 61%-owned by Ayala Land, LTI is a joint venture with JFE Steel Phils. Corporation and Mitsubishi Corporation. LTI sells industrial lots at the Laguna Technopark to local and foreign company locators. A ready-built factory was constructed at the Laguna Technopark and is now being leased.

*Ayala Hotels, Inc. (AHI).* A 50-50% joint venture with Ayala Corporation, AHI is the owner of Hotel InterContinental Manila, Cebu City Marriott Hotel and Oakwood Premier Ayala Center.

*Ayala Greenfield Development Corporation (AGDC).* 50-50% owned by Ayala Land and Greenfield Development Corporation, AGDC started development of Ayala Greenfield Estates in Calamba, Laguna in 1999. AGDC continues to develop and sell lots in this 500-hectare high-end residential subdivision which was initially launched in March 2000.

*ALI-CII Development Corporation.* This is a 50-50% joint venture with Concepcion Industries which started in 2000 the development of Metro Point, an 8,300-sqm mall at the corner of EDSA and Taft Avenue. The project was completed in the fourth quarter of 2001 and is now being leased.

*Alabang Commercial Corporation (ACC).* This is a 50-50% joint venture company with the Madrigal Family which manages and operates the Alabang Town Center.

*Lagoon Development Corporation.* 30%-owned by Ayala Land, this joint venture company is co-owned with Extraordinary Development Corporation. It operates a mall in Biñan, Laguna, named Pavilion Mall which started operations in 1999.

*Aurora Properties, Inc. (Aurora), Vesta Property Holdings, Inc. (Vesta) and Ceci Realty, Inc. (Ceci)*. Aurora and Vesta are 70% owned by Ayala Land while Ceci is 62% owned by Ayala Land. These companies are joint ventures with the Yulo Family for the development of nearly 1,700 hectares of land in Canlubang, Laguna.

**Employees**

As of September 30, 2005, Ayala Land's workforce is composed of 432 employees and totals 1,131 if subsidiaries' manpower is included. Ayala Land expects to, more or less, maintain its existing number of employees within the ensuing 12 month period.

Ayala Land and Ayala Land Inc. Employee's Union entered into a Collective Bargaining Agreement (CBA) on January 1, 2005 for two (2) years. This CBA expires on December 31, 2006. Ayala Land management had generally not encountered difficulties with its labor force, and no strikes have been staged in the past three (3) years.

Of the 432 Ayala Land employees, the breakdown of employees according to type is as follows:

| | |
|---|---|
| Corporate Sales & Marketing Services Group | 21 |
| Project Development Group | 185 |
| Support Group | 226 |
| Total | 432 |

Ayala Land accords its employees with certain benefits such as but not limited to, car financing, housing financing, health benefits, retirement benefits, group term insurance.

# DESCRIPTION OF PROPERTIES

As of September 2005, Ayala Land's land bank comprised a total of 4,070 hectares of fully converted properties in various locations nationwide. There are currently no major acquisitions contemplated by Ayala Land for the rest of 2005. The following is a breakdown of Ayala Land's land bank as of said period:

| Location | Hectares | % of Total |
|---|---|---|
| Makati | 56 | 1.38% |
| Taguig | 67 | 1.65% |
| Alabang | 18 | 0.44% |
| Quezon City | 43 | 1.05% |
| Antipolo | 9 | 0.22% |
| Las Piñas | 138 | 3.38% |
| Paranaque | 2 | 0.05% |
| Manila/Pasay | 7 | 0.17% |
| **Metro Manila** | **339** | **8.34%** |
| Laguna | 2,535 | 62.28% |
| Cavite | 268 | 6.58% |
| Batangas | 49 | 1.21% |
| Quezon | 67 | 1.66% |
| **Calabarzon** | **2,919** | **71.72%** |
| Naga | 45 | 1.11% |
| Cabanatuan/ Baguio | 49 | 1.20% |
| Bataan | 314 | 7.71% |
| **Other Luzon Area** | **408** | **10.03%** |
| Bacolod | 155 | 3.81% |
| Cebu | 201 | 4.94% |
| Davao | 32 | 0.79% |
| Cagayan De Oro | 15 | 0.38% |
| **Visayas/Mindanao** | **404** | **9.91%** |
| **TOTAL** | **4,070** | **100.00%** |

Makati includes sites of Mandarin Hotel (1.6 hectares) and Peninsula Hotel (2.0 hectares) which are 50% owned through Ayala Hotels, Inc. 1.37 hectares of these properties are mortgaged to BPI in compliance with Bangko Sentral ng Pilipinas ruling on directors, officers, stockholders and related interests (DOSRI); 0.16 hectares mortgaged with GSIS to secure surety bonds in favour of Bases Conversion Development Authority; and 1.75 hectares are the subject of leasehold rights to secure Makati Property Ventures, Inc.'s loan with Deutsche Investitions-Und Entwicklungsgesellschaft MBH.

Taguig includes the 9.8-hectare site of Market!Market! under a lease arrangement with Bases Conversion Development Authority, specifically, a 25-year lease, renewable for another 25 years, with annual lease payment of ₱117.0 million plus a certain percentage of revenues which varies depending on the use of property; 11.6-hectare "Lot B" under joint venture with Bases Conversion Development Authority; and 46 hectares in Fort Bonifacio owned through Bonifacio Land/FBDC.

Alabang includes the 17.6-hectare Alabang Town Center which is 50% owned through Alabang Commercial Corp. (ACC), 3.7 hectares of which is subject of a Mortgage Trust Indenture as security for ACC's Standby Letter of Credit with Rizal Commercial Banking Corporation, term loans with Security Bank and Land Bank of the Philippines.

Quezon City includes 40 hectares under joint venture with Armed Forces of the Philippines – Mutual Benefit Association, Inc.

Manila/Pasay includes a 6.5-hectare Manila property which is under a joint venture arrangement with Manila Jockey Club and 0.3-hectare site of MetroPoint which is 50% owned through ALI-CII Development Corporation.

Laguna includes the 1,314-hectare Canlubang property which is 70% owned through Aurora Properties, Inc. and Vesta Holdings, Inc. and another 362-hectare Canlubang property which is 62% owned through Ceci Realty; also includes remaining 393 hectares which are under a 50-50% joint venture with Greenfield Development Corp.; remaining 7 hectares in Laguna Technopark, Inc. which is 61% owned by Ayala Land, and 3-hectare site of Pavillion Mall, which is under 27-year lease agreement with Extra Ordinary Group, with an option to renew every 5 years thereafter. Lease payment is based on a certain percentage of gross income; 6.92 hectares are mortgaged to Land Bank of the Philippines as a security for term loan of Laguna Properties; 11.6 hectares are the subject of a Mortgage Trust Indenture securing Jexim loans of Laguna Properties with China Banking Corporation and Banco De Oro Universal Bank; 42.3 hectares are the subject of a Mortgage Trust Indenture securing Ayala Greenfield Development Corporation's International Exchange Bank loan.

Cavite includes 18 hectares at Riego de Dios Village which is under joint venture with the Armed Forces of the Philippines.

Batangas includes 23 hectares in the Sto. Tomas project which is under an override arrangement.

Quezon includes a 5.63 hectares of property which is mortgaged with Land Bank of the Philippines as a security for the term loan of Laguna Properties.

Bataan refers to the 314 hectares of Anvaya Cove under a joint venture arrangement with Sudeco Development Corporation.

Bacolod includes remaining 94 hectares in Ayala Northpoint which is under an override arrangement and 49 hectares under joint venture.

Cebu includes about 13 hectares in Cebu Business Park which is 47% owned through Cebu Holdings, Inc.; 0.6-hectare hotel site owned by Ayala Hotels, Inc. and Cebu Holdings, Inc.; 46-hectare site of Amara which is under joint development agreement with Coastal Highpoint Ventures, Inc.; and remaining 11 hectares in Cebu Civic and Trade Center which is owned by Cebu Property Ventures and Development Corporation which, in turn, is 76%-owned by Cebu Holdings, Inc. An 8.84-hectare site which houses the Ayala Center-Cebu is subject of a Mortgage Trust Indenture securing term loan with Bank of the Philippine Islands; 0.62 hectares are the subject of a mortgage trust indenture securing Cebu Insular Hotel Company Inc.'s term loan with Deutsche Investitions- Und Entwicklungsgesellschaft MBH.

There are no limitations on Ayala Land's use of the mortgaged properties in Makati, Alabang, Laguna, Quezon and Cebu. However, Ayala Land's existing debt covenants limit its ability to sell, transfer, assign, alienate, encumber or otherwise dispose of such mortgaged properties as long as the loans are still outstanding.

With 4,070 hectares in its land bank as of September 30, 2005, Ayala Land believes that it has sufficient properties for development in the next 10-15 years. Currently, Ayala Land does not have any specific property in mind but it is open to acquiring properties which it deems strategic. Ayala Land's preferred mode of acquisition, moving forward, would be through joint ventures with landowners. Meanwhile, Ayala Land continues to assess its landholdings to identify properties which no longer fit its overall business strategy.

# CERTAIN LEGAL PROCEEDINGS

Ayala Land is not involved in any litigation it considers material. However, certain individuals and entities have claimed an interest in Ayala Land's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale. The controversy involves approximately 146 hectares owned by Ayala Land in Las Piñas.

Prior to purchasing the aforesaid properties, Ayala Land conducted an investigation of the titles to the properties and had no notice of any title or claim that was superior to the titles purchased by Ayala Land. Ayala Land traced its titles to their original certificates of title and Ayala Land believes that it has established its superior ownership position over said parcels of land. Ayala Land has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, Ayala Land filed petitions in local regional trial courts of Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these adverse claimants. A number of these cases are at various stages of trial and appeal. Some of these cases have been finally decided by the Supreme Court in Ayala Land's favor. These include two decisions affirming the title of Ayala Land to approximately 21 hectares of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale.

Ayala Land does not intend to develop and sell the rest of the Las Piñas properties until litigation is resolved.

# MARKET PRICE OF AND DIVIDENDS ON AYALA LAND'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

**Capitalization and Ownership**

Ayala Land was incorporated in June 1988 and was listed on the Philippine Stock Exchange in July 1991. As of the close of trade of the PSE on September 30, 2005, Ayala Land had a market capitalization of ₱ 86.3 billion.

Ayala Land had 13,081 shareholders as of September 30, 2005. The following is a list of 20 of its largest stockholders as of that date:

| NAME | NATIONALITY | OWNERSHIP | % OWNERSHIP |
|---|---|---|---|
| (1) Ayala Corporation | Filipino | 6,695,182,595* | 62.056% |
| (2) PCD Nominee Corporation | Non-Filipino | 2,958,162,031 | 27.42% |
| (3) PCD Nominee Corporation | Filipino | 726,868,468** | 6.737% |
| (4) SSS Loans & Investment Office | Filipino | 18,873,388 | 0.17% |
| (5) The Insular Life Assurance Co., Ltd. | Filipino | 14,189,877 | 0.13% |
| (6) Cygnet Development Corp. | Filipino | 12,131,320 | 0.11% |
| (7) Jose Luis Gerardo Yulo | Filipino | 11,976,572 | 0.11% |
| (8) BPI Trust Account #14016732 | British | 10,103,870 | 0.09% |
| (9) Pua Yok Bing | Filipino | 6,131,619 | 0.06% |
| (10) Elvira L. Yulo | Filipino | 6,020,000 | 0.06% |
| (11) Vincent Y. Tan | Filipino | 5,185,680 | 0.05% |
| (12) BPI Trust Account #14016724 | American | 4,940,340 | 0.05% |
| (13) Estrellita B. Yulo | Filipino | 4,777,353 | 0.04% |
| (14) Rivercrest Realty Corporation | Filipino | 4,705,000 | 0.04% |
| (15) Abacus Capital & Investment Corp. | Filipino | 4,420,000 | 0.04% |
| (16) Maria Alexandra Q. Caniza | Filipino | 3,775,855 | 0.04% |
| (17) Apex Mgt. & Devt. Group Inc. | Filipino | 3,600,600 | 0.03% |
| (18) Xavier P. Loinaz | Filipino | 3,572,464 | 0.03% |
| (19) Maria Cristina V. Yulo | Filipino | 3,359,628 | 0.03% |
| (20) Pan Malayan Mgmt. & Investment Corp. | Filipino | 3,335,624 | 0.03% |

*includes Ayala Corporation's shares held under PCD Nominee Corporation (Filipino)
**excludes Ayala Corporation's shares

**Dividends**

Dividends declared by Ayala Land on its shares of stocks are payable in cash or in additional shares of stock. Since 1991 to 2001, Ayala Land has paid cash dividends ranging from ₱0.03 to ₱0.15 per year, and stock dividends ranging from 20% to 50%. In July 2002, Ayala Land declared a special cash dividend of ₱0.15 per share, in addition to Ayala Land's regular cash dividend of ₱0.03 per share per semester. In August 2003, Ayala Land declared another special cash dividend of ₱0.26 per share. In 2005, a total of ₱0.24 per share special cash dividend was declared: ₱0.10 in February and ₱0.14 in August. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Special cash dividends are declared depending on the availability of cash, taking into account Ayala Land’s capital expenditures and project requirements and the progress of its ongoing asset rationalization program.

Cash dividends are subject to approval by the Company’s Board of Directors but no stockholder approval is required. Property dividends, which may come in the form of additional shares of stock, are subject to approval by the Board of Directors and Ayala Land's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and the PSE.

Other than restrictions imposed by the Corporation Code of the Philippines, Ayala Land is also restricted by its negative covenants on its Bonds and long term loans to pay cash dividends if it is suffering from any events of default and/or required financial ratio is violated and/or if loans are past due.

**Stock Price History**

The following table sets out Ayala Land’s share prices (adjusted for the effects of stock dividends) for the years 2002 to 2004 and for the first half of 2005.

| | | 2005 | | | 2004 | | | 2003 | | | 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **QUARTER** | **HIGH** | **LOW** | **CLOSE** | **HIGH** | **LOW** | **CLOSE** | **HIGH** | **LOW** | **CLOSE** | **HIGH** | **LOW** | **CLOSE** |
| First | 10.00 | 7.20 | 8.30 | 6.50 | 4.90 | 5.30 | 5.30 | 4.35 | 4.55 | 7.20 | 4.80 | 6.90 |
| Second | 8.80 | 7.20 | 7.80 | 5.90 | 5.20 | 5.80 | 6.60 | 4.50 | 6.00 | 7.50 | 5.20 | 5.60 |
| Third | 8.60 | 6.80 | 8.00 | 6.60 | 5.20 | 6.50 | 6.90 | 5.70 | 6.30 | 6.20 | 5.20 | 5.60 |
| Fourth | --- | --- | --- | 7.30 | 6.30 | 7.30 | 6.70 | 5.30 | 6.10 | 5.60 | 4.15 | 4.55 |

**Recent Sale of Unregistered Securities**

Within the past three years, the Company issued 63.375 million common shares to Ayala Corporation on November 28, 2003 in exchange for the old Ayala Museum lot of Ayala Corporation. The following valuations were used in the exchange of the Company’s shares for the old Museum lot, to wit:

1. ALI shares ₱8.40 per share which is 29% above the August 19, 2003 closing price; and
2. Museum lot: ₱227,500 per sqm. This is the average of the appraised values determined by Asian Appraisal Company, Inc. and Cuervo Appraisers as of June 2, 2003.

AB Capital and Investment Corporation was commissioned to determine the valuation that will be used in the exchange of the old Museum lot with an area of 2,340 sqm. and the 63.375M new common shares of the Corporation.

An exemption from registration was claimed with the SEC under Section 10.1 (e) of the SRC, citing “The sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock.”

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

**Plan of Operations**

The Company has lined-up projects to tap available market opportunities. It continues to increase its recurring revenues through deliberate expansion of its mall operations. Ayala Land started development of the 200,000 square meter North Triangle Commercial Center in Quezon City in July 2004 and the project is targeted for completion by 2007. Meanwhile, Phase 1B of Market!Market! will start operations in the fourth quarter of 2005. In addition, plans are being finalized for further redevelopment of Greenbelt in Ayala Center. In the office leasing segment, it continues to tap the growing BPO market opportunities. Ayala Land completed PeopleSupport Center in April 2005 and it expects to complete Convergys and Infonxx Building within the fourth quarter. The Company is planning to develop more build-to-suit office buildings outside the Makati Central Business District.

On the development side, the Company is ensuring growth through its various residential developments. In the high-end residential segment, Ayala Land launched a number of projects in 2005 such as Sonera, The Residences at Greenbelt - San Lorenzo Tower, and Anvaya Cove. While pursuing new projects, the Company will continue to roll-out new phases in existing projects, including Ayala Westgrove Heights, Ayala Greenfield Estates and Serendra. New residential projects for the middle-income and mass housing markets will also be introduced in various locations by Community Innovations, Inc. and Laguna Properties Holdings, Inc. As the Company builds up its product portfolio across a wider market, it will continue to put emphasis on cost efficiency to preserve margins and deliver the best value for money for its customers. The expanded product offerings will be complemented by intensified sales and marketing efforts to broaden market reach and tap the growing market of overseas-based Filipinos.

**Results of Operations for the Nine Months Ended September 30, 2005**

Ayala Land posted ₱16.5 billion revenues for the first nine months of 2005, up ₱4.3 billion or an increase of 35% from 2004, reflecting sustained growth in shopping center operations and residential sales, and the impact of the sale of the Company's interest in preferred redeemable shares of Astoria Investment Ventures, Inc. (AIVI) in the first quarter.

During the third quarter, revenues amounted to ₱4.7 billion, compared to ₱4.1 billion in the same period last year, or an increase of 13%.

Net income for the first nine months of 2005 amounted to ₱2.6 billion, up 46% year-on-year. Of this amount, ₱789 million was generated in the third quarter, 15% higher than previous year.

"We are seeing steady improvement across all business lines, reflecting our increased efforts to broaden penetration of the market. Our performance year-to-date also reflects our continued disposition of non-core assets, the proceeds of which have been streamed up as dividends, which have served to lighten our asset base and improve our return on capital," said Jaime I. Ayala, Ayala Land President and Chief Executive Officer.

**Revenues**

***Shopping Centers.*** Shopping center revenues, derived from land and building leases, as well as revenues from shopping center carparks, amounted to ₱2.8 billion or 17% of total, up 23% from ₱2.3 billion in the previous year. Growth was mainly due to the full operations of Market!Market! Phase 1A, the opening of SM Expansion, and Ayala Center's higher effective rental rate (given the 5-12% escalation in basic rent). Incremental sales from replacement merchants also increased revenues.

Shopping center revenues held steady during the third quarter compared to the second quarter.

Despite the unabated fuel price increases which affected consumer spending, total mall sales over the nine month period grew by 12% year-on-year, although same-store sales were slightly down 1%. Ayala Center maintained a high occupancy rate of 96% and increased its effective rent for building leases by 7%. Overall mall occupancy rate averaged at 90%, slightly lower than 92% in 2004 due to Market!Market! which is still in its early stage of operations. Excluding Market!Market!, average mall occupancy rate was at 96%, up from 93% in the previous year.

***Corporate Business.*** Corporate business revenues, derived from the lease of traditional and BPO office buildings, as well as industrial lot sales, amounted to ₱405 million or 3% of total. This amount is slightly higher by 3% from ₱394 million in 2004. The sale of 1,773 sqm of office space at Ayala Life FGU Center Makati in 2004 was offset in 2005 by the 5% increase in average rent of traditional office buildings, start of operations of PeopleSupport Center, and higher sales at Laguna Technopark (31,363 sqm in 2005 versus 24,641 sqm in 2004).

During the third quarter, deals closed with replacement tenants at 6750 and MSE brought average occupancy rate of the Company's traditional office buildings up from 91% as of end-June to 97% as of end-September, higher than Makati CBD's 92% average occupancy rate.

Construction of BPO buildings, consisting of nearly 36,000 sqm leaseable office space, remained on track. PeopleSupport Center started operations in the second quarter. Convergys was completed in October, while the Infonxx Building is scheduled for completion by year-end.

***Hotels.*** Hotel operations contributed ₱1.3 billion or 8% of total revenues, up 6% from ₱1.2 billion in the previous year, reflecting higher room rates and revenue per available room across all three hotel/serviced apartment properties. Both Intercon and Cebu Marriott experienced higher occupancy levels. Average occupancy during the first nine months of Intercon was 75% versus 72% in 2004. Cebu Marriott had 86% occupancy, slightly higher than 85% last year. Oakwood's average occupancy of 82% in 2005, while lower compared to 87% in 2004, was well above MCBD's average of 76%.

***Residential Developments.*** Revenues from residential developments across all market segments amounted to ₱6.4 billion or 39% of total revenues and increased 9% from ₱5.9 billion in the previous year. This amount includes financing income and the sale of commercial lots and club shares undertaken to complement the residential developments.

Bookings for the first nine months of 2005, exclusive of the share of Ayala Land's partners, totaled over 2,700 units, including 347 Anvaya Beach and Nature Club shares, up 30% year-on-year. For the third quarter, sales bookings amounted to 1,147 units, much higher compared to 702 units in the same quarter of 2004. This excludes parent company Ayala Land's override of residential units arising from owned properties being developed by Community Innovations, Inc. (CII) and Laguna Properties Holdings, Inc. (LPHI), which are included as revenues of the newly created Landbanking business line.

*High-end lot sales.* Revenues from high end lot sales, including financing income, amounted to ₱1.8 billion or 11% of consolidated revenues, up 14% from ₱1.6 billion in the previous year. Revenue increase was due to the launch of Sonera in March and higher bookings at Ayala Greenfield Estates, Ayala Westgrove Heights and Plantazionne Verdana Homes.

A total of 468 lots were booked in the first nine months, up 42% year-on-year, of which 166 were booked in the third quarter.

*High-end unit sales.* High end unit sales revenues of ₱1.7 billion accounted for 10% of total, down 20% from previous year. Unit bookings amounted to 244 units, 15% lower year-on-year due to the timing of project launches. Full sell-out of One Legazpi Park and Ferndale Homes in 2004 was partly offset by bookings at The Residences at Greenbelt – San Lorenzo Tower launched in May and construction accomplishment at Serendra (District 1) and The Residences at Greenbelt – Laguna Tower.

*Leisure.* The Company's new project, Anvaya Cove, a high-end seaside residential resort community, in Morong, Bataan launched in July, experienced brisk take-up. As of end-September, barely three months from launch, 62% of 138 lots was taken up. The sale of 484 beach and nature club shares exceeded expectations. A 6% increase in share price was effected two months after the launch.

Although 38 lots and 247 shares were booked in the third quarter, revenue contribution of ₱21 million was still low due to minimal percentage of construction completion.

*Middle-income housing*. Revenues from middle-income residential projects of CII amounted to ₱1.5 billion, up 80% from previous year's ₱858 million and comprised 9% of total. Although bookings of 438 lots/units were lower compared to 457 in the previous year, revenue growth was due to the recognition of prior year's sales given higher completion rate at Serendra (District 2) and The Columns (Towers 2 & 3).

Two projects to be launched in November will significantly build up revenues from this business line. The Columns at Legazpi Village is a two-tower condominium development, consisting of 780 units, located in Legazpi Village, Makati. Celadon Residences, CII's joint venture project with Manila Jockey Club, consists of 202 townhouse units to be developed on the site of the former San Lazaro racetrack.

*Mass housing.* Bookings of LPHI grew by 16% to 1,192 units/lots. Revenues remained flat at ₱1.4 billion or 9% of total as a result of an increase in lower-priced units sold and the change to a more conservative booking policy adopted early in the year.

To be launched in December is Avida Towers, the mass housing component of the joint venture with Manila Jockey Club. The project consists of five residential towers with a total of 1,956 units.

***Services.*** Revenues from services amounted to ₱1.7 billion or 10% of total and grew by 33% year-on-year, principally due to construction.

Construction revenues, primarily from third-party contracts of Makati Development Corporation, amounted to ₱1.3 billion or 77% of total service revenues and grew by 41% mainly due to higher revenues from equipment rentals, and pipelaying and infrastructure projects.

Property management fees and revenues from waterworks both grew by 11%.

***Landbanking.*** Starting the third quarter, landbanking as a business line will be separately reported to highlight the Company's thrust of realizing value out of its land parcels and deploying its unique capabilities for developing large, mixed-use, masterplanned communities.

Revenues from this business line consist of Ayala Land parent's override or share of sales involving properties made available to LPHI and CII for development, gas station rentals, and carpark revenues outside Ayala Center.

Landbanking contributed ₱365 million or 2% to consolidated revenues, more than double the previous year's ₱167 million. Growth was mainly due to more ALI-owned mass housing units sold, as well as higher completion of The Columns and One Aeropolis where ALI has override units.

***Interest and Other Income.*** Interest and other income amounted to ₱3.5 billion or 21% of total revenues, significantly higher than previous year's level of ₱939 million primarily due to realized gain from sale of preferred shares of AIVI.

Interest income amounted to ₱639 million, 3% higher than previous year's ₱618 million due to higher average cash balance. Equity in net earnings of affiliates was up 7% to ₱164 million, reflecting strong results of affiliates Alabang Commercial Corporation, Cebu Holdings, Inc., and Emerging City Holdings and Berkshires Holdings (Ayala Land's corporate vehicles for its investment in FBDC).

**Expenses**

Cost of sales and direct operating expenses totaled ₱8.4 billion, up 16% year-on-year, at par with growth in operating revenues.

In terms of corporate expenses, general and administrative expenses grew by 19% to ₱1.6 billion, primarily due to increased payroll given CBA adjustments and subsidiaries' expansion. Interest and other charges amounted to P3.1 billion, more than triple previous year's P970 million, largely due to the ₱1.86 billion provision for decline in value of assets intended to be sold and write-off of deferred charges.

**Net Operating Income (NOI) and NOI Margins**

Net operating income amounted to ₱4.5 billion, 14% higher than the ₱4.0 billion posted in 2004. Shopping centers contributed 39% or ₱1.8 billion, while residential developments accounted for ₱1.6 billion or 34%.

Overall NOI margin was maintained at 35%.

**Project and Capital Expenditures**

For the first nine months of 2005, consolidated project and capital expenditures amounted to ₱4.8 billion, about 35% of the ₱13.6 billion budget for the whole year. About 73% was spent for residential projects including Serendra, The Residences at Greenbelt, The Columns, Aeropolis condo projects, Ayala Westgrove Heights, Ayala Greenfield Estates and Anvaya Cove. The balance of 27% was used for investment properties such as shopping centers and office buildings, including Market!Market! and BPO office buildings.

The Company's project launches and construction of ongoing projects are generally on schedule. Disbursement of the remaining balance by year-end will depend on the cash levels of subsidiaries with budget allocations for equity infusions and the closing of ongoing negotiations for the acquisition, primarily via joint development or lease, of properties and their subsequent development.

**Balance Sheet**

Total interest-bearing debt was brought down to ₱10.9 billion as of end-September, resulting in lower debt-to-equity and net debt-to-equity of 0.29:1 and 0.08:1, respectively.

Cash reserves amounted to ₱8.0 billion, owing to the ₱3.2 billion net cash flow generated from the sale of AIVI shares and ₱778 million receivables sale. The high cash level enabled the Company to prepay more expensive debt and pay out ₱1.4 billion cash dividends in the first nine months.

Given the Company's solid balance sheet, it remains fully capable of pursuing strategic investments and projects that will ensure its long term, sustainable growth.

**Material Changes**

<u>Income Statement items</u> – 9M 2005 versus 9M 2004

*15% increase in real estate revenues*
Principally due to higher revenues from shopping centers given additional leasable area and higher average rental rate; increased revenues from corporate business due to higher industrial lot sales and start of operations of PeopleSupport Center; improved hotel revenues due to higher room rates; higher revenues from residential developments following higher sales bookings at Ayala Greenfield Estates, Ayala Westgrove Heights, Plantazionne Verdana Homes, Verdana Mamplasan and various mass housing projects, sales at new projects Sonera, The Residences at Greenbelt (San Lorenzo Tower) and Anvaya Cove, as well as additional sales and revenue recognition on prior years' sales at The Residences at Greenbelt (Laguna Tower), One Legazpi Park, The Columns and Serendra; increased service revenues from construction, property management and waterworks; and higher revenues from landbanking business line.

*271% increase in interest and other income*
Primarily due to the gain on sale of Astoria Investment Ventures, Inc. (AIVI) preferred shares; increased interest income given higher investible funds; and improved equity earnings due to strong results of affiliates Cebu Holdings, Alabang Commercial Corporation, and Emerging City Holdings and Bershires Holdings (Ayala Land's corporate vehicles for its investment in FBDC).

*16% increase in real estate costs and expenses*
Mainly due to higher real estate revenues and increased depreciation and direct operating expenses given Market!Market! opening.

*19% increase in general and administrative expenses*
Primarily due to higher payroll costs given the CBA adjustments and subsidiaries' expansion.

*215% increase in interest and other charges*
Principally due to the ₱1.86 billion provisions for decline in value of assets intended to be sold and write-off of deferred charges.

*39% decline in provision for income tax*
Mainly due to capital gains in AIVI transaction subjected to final tax at lower rate.

*2,093% increase in net earnings applicable to minority interest*
Largely due to increased income of Ayala Hotels, Inc., Laguna Technopark, Inc., and lower loss of Roxas Land Corporation (given the one-time project cost adjustment at One Roxas Triangle in 2004).

<u>Balance Sheet items</u> – September 30, 2005 versus End-2004

*25% increase in cash and cash equivalents*
Mainly due to proceeds from the sale of AIVI preferred shares.

*7% increase in subdivision land for sale*
Mainly due to continued development at existing residential subdivision projects such as Ayala Greenfield Estates, Ayala Westgrove Heights, Plantazionne Verdana Homes and Verdana Homes Mamplasan, as well as development of a new projects Sonera and Anvaya Cove.

*38% increase in condominium and residential units for sale*
Largely due to construction accomplishment at residential building projects such as Serendra, The Residences at Greenbelt (Laguna Tower), One Legazpi Park, Montgomery Place, The Columns, One Aeropolis and Aeropolis 2 New Manila, as well as new project The Residences at Greenbelt (San Lorenzo Tower) .

*58% increase in deferred tax and other current assets*
Mainly due to higher prepaid expenses and creditable withholding taxes of some subsidiaries.

*17% decline in non-current accounts and notes receivables*
Largely due collection of payments at various projects.

*5% decrease in investments*
Primarily due to provision for decline in value of assets intended to be sold and write-off of deferred charges.

*15% decline in property and equipment*
Mainly due to provision for decline in asset value.

*50% increase in other assets*
Mainly due to higher non-current deferred tax asset and deposit made for Manila Jockey Club's 6.5-hectare property in Manila.

*53% increase in accounts payable and accrued expenses*
Primarily due to higher payables to contractors for various projects and additional purchases by ALI and some subsidiaries such as Makati Development Corporation and Serendra, Inc.

*27% decrease in loans payable*
Largely due to payment of short-term loans and STCPs.

*11% increase in income tax payable*
Additional income tax payable mainly due to 9M2005 operations.

*28% decrease in current portion of long-term debt*
Largely due to prepayment of FXCN and other long-term loans.

*15% decline in current portion of estimated liability for land and property development*
Mainly due to construction accomplishment at various projects.

*227% increase in other current liabilities*
Primarily due to higher deposits from customers and tenants.

*16% decline in long-term debt (net of current portion)*
Largely due to prepayment of FXCN and other long-term loans.

*8% increase in non-current liabilities and deposits*
Due to increase in tenants' deposits for Market!Market! and PeopleSupport Center and buyers' deposits for new residential projects.

*15% increase in non-current portion of estimated liability for land and property development*
Primarily due to new sales at existing and new projects.

**Results of Operations – Year 2004**

Given favorable market response to its high quality and innovative products, Ayala Land posted a record-high consolidated revenues of ₱18.1 billion, 24% higher than previous year's level. Initiatives to efficiently manage cost cushioned the effects of increasing margin pressure from rising costs, enabling the Company to post an 11% growth in net income to ₱3.0 billion.

Strong growth was experienced across the Company's various business lines.

Ayala Land's leasing business, derived from shopping centers, office buildings and hotels exhibited good growth due to improving market conditions and superior quality of leased properties and contributed 31% of total revenues.

Shopping centers and office leasing revenues amounted to ₱3.9 billion, contributed 22% to total and grew by 10% year-on-year. The Company's shopping centers, which benefited from further expansions, high occupancies and strong merchant sales, drove leasing revenues. In the past year, total mall leasable area increased with the opening of Greenbelt 4, completion of SM Makati renovation and start of operations of Market!Market!. As of year-end, retail shopping center GLA (excluding hotels) amounted to 730,000 sqm. Weighted average occupancy of shopping centers was 95%, excluding Market!Market! which opened in September and had 82% of its 115,000 sqm leaseable area leased out/committed by year-end. At Ayala Center, which generates the bulk of shopping center revenues, total sales and same-store sales grew by 11% and 8%, respectively, given the increased pedestrian traffic generated by the efficient walkway system and sustained advertising and marketing activities. An escalation in basic rents also contributed to rental revenue growth.

Office leasing remained resilient as seen in the high 94% average occupancy rate enjoyed by the Company-owned buildings. To further increase its office rental revenues, Ayala Land is carving a niche in the build-to-suit office building segment as it addresses the growing demand from call centers and BPO firms. Construction of PeopleSupport Center and Convergys Center are in full swing and will be completed by April and October, respectively. These buildings will add 30,000 sqm of leasable area and increase the Company's office portfolio by 43% to about 100,000 sqm.

With the hotel sector's marked recovery in 2004, the Company's hotel and serviced apartment properties did well. Revenues from hotel operations contributed to 9% of consolidated revenues or ₱1.5 billion, up 21% year-on-year. Increased visitor arrivals led to significant improvement in occupancies, allowing moderate increases in room rates. Oakwood Premier Ayala Center's average occupancy rate was 89%, significantly higher than previous year's 69% and much better than MCBD hotels' average of 75%. Hotel InterContinental Manila was 71% occupied compared to 66% in 2003. Meanwhile, Cebu City Marriott Hotel posted a high occupancy rate of 85%, also better than Cebu hotels' average of 72%.

In 2004, the Company's development business lines expanded due to new project launches which kept pace with improvements in the property market.

Condominium and high-end residential unit sales generated ₱3.6 billion in revenues and contributed 20% to total revenues. This is nearly double last year's level as the Company successfully launched Serendra and sold One Legazpi Park receivables which paved the way for an accelerated revenue booking. By end-2004, a total of 1,031 units have been offered for sale at Serendra, 55% of which has been taken up. Higher sales at Montgomery Place and One Roxas Triangle, as well as additional sales and revenue recognition on prior year sales at The Residences at Greenbelt (Laguna Tower), also contributed to the significant revenue increase. The sale of 1,773 sqm of office space at Ayala Life FGU Center in Makati further augmented revenues.

The sale of residential, commercial and industrial lots contributed 16% to consolidated revenues or ₱2.9 billion, about the same level as last year. At Ayala Greenfield Estates, the completion of the golf course's first nine holes boosted sales, bringing cumulative take-up rate to 91% of the 508 lot offering as of year-end. Steady community build up at Ayala Westgrove Heights prompted the construction of a neighborhood retail area, bringing take-up rate to 90% of 1,535 lots. At Ayala Hillside Estates, the completion of the 18-hole golf course attracted new buyers and brought the project's take-up rate to 98%. Also contributing to land sales were the 2,997-sqm gas station site in Alabang and a 2,400-sqm lot within the MCBD. At Laguna Technopark, a total of 3.7 hectares were sold in 2004, slightly lower than previous year's 4.1 hectares.

Revenues from mass housing sales through LPHI amounted to ₱1.8 billion or 10% of total. While LPHI's sales booking increased by 6% to 1,536 units in 2004, mass housing revenues slightly declined by 4% due to the still low revenues recognized from medium-rise condominium projects given their early stage of construction. In addition, there were more high-value commercial lots sold in 2003. LPHI's affordable line accounted for nearly two-thirds of sales volume in 2004. These products, priced at ₱750,000 to ₱1.8 million per unit, came primarily from projects like Sta. Catalina Village (Dasmariñas, Cavite), San Francisco Village (Sto. Tomas, Batangas) and Villa Sta. Monica (Lipa, Batangas). LPHI's affordable condominium line, while still a relatively new product, has also been well-received. The first and second towers of One Aeropolis in Sucat, Parañaque were 97% and 76% taken-up, respectively, while newly-launched Aeropolis 2 New Manila, Quezon City was 13% taken-up by year-end.

Revenues from the sale of middle-income residential units through CII amounted to ₱1.3 billion, representing a 97% year-on-year growth and accounting for 7% of Ayala Land's consolidated revenues. Driving growth in the core-mid segment were new sales and construction accomplishment at The Columns. The project's nearly fully sold first tower was topped off while the second and third towers, 78% and 69% taken up as of end-2004, were 49% and 12% complete, respectively. Serendra (District 2) and Verdana Mamplasan, both launched in 2004, also contributed to the growth. Of the 416 lots offered for sale at Verdana Mamplasan, 34% has been taken up. Soon, CII will launch house-and-lot packages within this project.

Two wholly-owned subsidiaries, Makati Development Corporation (MDC) and Ayala Property Management Corporation (APMC), continued to service Company projects. MDC and APMC also serviced third-party clients from which they derived combined revenues of about ₱1.0 billion, contributing 5% to consolidated revenues. This represents a 30% year-on-year growth, with various MDC projects for BCDA and Manila Water, as well as Market!Market! and Ayala Greenfield Estates, accounting for the increase.

Interest and other income accounted for 11% of revenues and amounted to ₱2.1 billion. The 20% increase was due to higher interest income, higher equity earnings from Fort Bonifacio Development Corporation, Cebu Holdings, Inc. and Alabang Commercial Corporation, higher management and marketing fees and gain on sale of shares in some companies.

**Financial Condition – Year 2004**

A strong balance sheet enabled the Company to launch new projects, pursue expansion plans and fund strategic investments.

Liquidity was preserved, backed by strong cash generation from leasing operations. Cash reserves stood at ₱6.4 billion as of end-2004, 31% higher than end-2003 level, keeping current ratio at a high level of 1.71:1.

Further enhancing liquidity were the sale of receivables and non-strategic assets which, in 2004, generated ₱3.2 billion net cash proceeds. This enabled the Company to pare down debt, amidst expanding project offerings, to ₱13.4 billion, 7% lower than end-2003 level. With a low debt-to-equity ratio of only 0.36:1, the Company has room to gear up for strategic investments.

**Project and Capital Expenditures – Year 2004**

In 2004, Ayala Land's consolidated project and capital expenditures amounted to ₱8.1 billion, 47% of which was spent for residential buildings and townhouse projects, primarily Serendra, Montgomery Place, One Legazpi Park and The Residences at Greenbelt. Nearly 30% was used for buildings for lease including Market!Market! and PeopleSupport Center. The balance was used for residential subdivision projects and equity investments. For 2005, Ayala Land is allocating a ₱13.6 billion budget for consolidated project and capital expenditures.

**Material Changes**

*Income Statement - 2004 versus 2003*

*25% increase in real estate revenues*
Principally due to higher sales bookings at Ayala Greenfield Estates, Ayala Westgrove Heights, Ayala Northpoint, Montgomery Place and One Roxas Triangle, sales at newly-launched projects Serendra and Verdana Homes Mamplasan; sale of office spaces at Ayala Life FGU Center in Makati, an office lot within the MCBD and a gasoline station site in Alabang; accelerated revenue booking of installment sales at One Legazpi Park due to the sale of receivables; revenue recognition on prior years' sales due to additional construction accomplishment at One Legazpi Park, The Residences at Greenbelt (Laguna Tower) and The Columns; higher mass housing sales due to new LPHI projects; higher rental revenues from shopping centers due to additional leasable space, increase in basic rent and robust sales of merchants; and higher construction revenues.

*21% increase in revenues from hotel operations*
Primarily due to higher occupancy and room rates at the Company's hotel properties.

*20% increase in interest and other income*
Largely due to higher interest income, equity earnings, management fees and marketing fees; and gain on sale of shares in some companies.

*35% increase in real estate cost and expenses*
Mainly due to higher real estate revenues; Roxas Land Corporation's project cost adjustment; higher RPT, marketing expenses, depreciation expenses for rental properties and insurance; and change in revenue/product mix.

*8% increase in hotel operations expenses*
Largely due to higher occupancy rates at the Company's hotel properties.

*36% increase in general and administrative expenses*
Primarily due to higher payroll costs; higher ESOP availment and contributions to retirement fund; and additional expenses from expanding subsidiaries such as Ayala Land Sales, Inc., Community Innovations, Inc. and Serendra, Inc.

*13% decrease in interest and other charges*
Principally due to the real property tax (RPT) charges in 2003.

*58% increase in provision for income tax*
Basically due to lower tax in 2003 given the tax deductibility of the RPT charges.

*168% decrease in net earnings applicable to minority interest*
Largely due to Roxas Land Corporation's loss which resulted from project cost adjustments.

*Balance Sheet - End-2004 versus End-2003*

*31% increase in cash and cash equivalents*
Mainly due to proceeds from the sale of non-core assets and installment receivables, partly offset by the upfront cash payment to BCDA for the Serendra project and loan payments.

*65% increase in accounts and notes receivables (current portion)*
Primarily due to additional sales from new projects of ALI, LPHI & Community Innovations, Inc.; advances to a subsidiary; and increase in advances to contractors.

*20% decline in subdivision land for sale*
Mainly due to continued sales at residential subdivision developments such as Ayala Greenfield Estates, Ayala Westgrove Heights, Ayala Hillside Estates, Paseo de Magallanes, Ayala Northpoint and Plantazionne Verdana Homes, as well as industrial park project Laguna Technopark.

*11% decrease in condominium and residential units for sale*
Largely due to continued sales at residential building projects such as One Legazpi Park, The Residences at Greenbelt (Laguna Tower), The Columns and One Aeropolis.

*86% increase in deferred tax and other current assets*
Mainly due to higher prepaid expenses and creditable withholding taxes of some subsidiaries.

*18% increase in non-current accounts and notes receivables*
Largely due to increase in installment sales at various projects.

*9% decline in land and improvements*
Primarily due to transfer of a formerly unutilized property (now site of Convergys Center) to Investments.

*14% increase in investments*
Mainly due to the expansion of leasing portfolio through Market!Market!, PeopleSupport Center and Convergys Center, as well as the acquisition of additional stake in the North Triangle Depot Commercial Corporation.

*9% increase in other assets*
Largely due to increase in prepaid items.

*43% increase in accounts payable and accrued expenses*
Primarily due to the additional purchases by ALI and some subsidiaries such as LPHI, Roxas Land Corporation, Makati Development Corporation and Serendra, Inc.

*33% increase in loans payable*
Largely due to Ayala Land's STCP issuance and new loan availment of Station Square East Commercial Corporation, LPHI, Ayala Greenfield Development Corporation, Roxas Land Corporation, Community Innovations Inc. and Leisure and Allied Industries Phils.

*47% increase in income tax payable*
Additional income tax payable mainly due to 2004 operations.

*17% decline in current portion of long-term debt*
Largely due to payment of long-term debt.

*24% increase in current portion of estimated liability for land and property development*
Primarily due to new sales at existing and new projects.

*22% decrease in other current liabilities*
Due to payment made to a landowner.

*10% decline in long-term debt (net of current portion)*
Mainly due to payment and reclassification to current of some long-term debt.

*17% increase in non-current liabilities and deposits*
Due to increase in tenants' deposits at Market!Market! and higher deferred credits such as DST and transfer taxes.

*81% increase in non-current portion of estimated liability for land and property development*
Primarily due to new sales at existing and new projects.

*16% increase in minority interest*
Mainly due to additional share of minority partners in net income of Ayala Greenfield Development Corporation, Leisure and Allied Industries Philippines, Laguna Technopark Inc., Ayala Hotels Inc. and Serendra, Inc.

*7% increase in stockholders' equity*
Largely due to higher retained earnings from 2004 net income

**Results of Operations – Year 2003**

Ayala Land continued to maintain its preeminent position in traditional markets while vigorously pursuing available opportunities in emerging growth areas. This enabled the Company to post an 8% growth in net income to ₱2.71 billion derived from consolidated revenues of ₱14.62 billion, 20% higher than previous year’s level.

The Company’s leasing portfolio performed well with an 8% increase in rental revenues to ₱3.59 billion, contributing 24% total revenues. Rental revenues from commercial centers, primarily driven by Ayala Center, contributed nearly 80% to total rentals. With the full year operations of Greenbelt 2 and 3, as well as the opening of Greenbelt 4 in the fourth quarter, total sales at Ayala Center grew by 6% year-on-year. Ayala Center maintained a high occupancy rate of 95% and attracted more mall visitors as new stores opened. Meanwhile, the Company’s office properties also did well, with high occupancy rates averaging at 95%. These properties continued to command premium pricing given their superior location, better quality and high level of property management.

Land sales also drove revenues, contributing ₱2.85 billion, or 19% of total revenues. This represents a 35% increase year-on-year, primarily due to higher sales bookings at Ayala Westgrove Heights, Ayala Hillside Estates and Plantazionne Verdana Homes. At the end of the year, take up rates were 86% of 1,329 lots at Westgrove, 84% of 121 Ayala Land-owned lots at Hillside and 71% of 159 lots at Plantazionne. Industrial lot sales were also higher as Laguna Technopark sold seven lots with a total area of 4.1 hectares in 2003 versus one lot with an area of 0.6 hectare in the previous year. Also pushing revenues from land sales were the two Madrigal Business Park lots sold in the first quarter. Further augmenting lot sales were other subdivision projects such as Ayala Greenfield Estates, Paseo de Magallanes and Tamarind Cove.

With the strong performance of Ayala Land’s new condominium projects, revenues from residential unit sales grew by 20% to ₱1.88 billion, accounting for 13% of consolidated revenues. Launched in June, the 249-unit The Residences at Greenbelt – Laguna Tower met favorable market response as seen in the take-up rate of 61% by year-end. One Legazpi Park was nearly fully sold with a 96% take-up rate. Contributions from these two projects, however, were tempered by the revenue recognition process which takes into account the completion rate of the buildings. At the end of 2003, The Residences at Greenbelt – Laguna Tower was 3% complete while One Legazpi Park's completion rate was at 34%. Meanwhile, the Company also realized additional sales at One Roxas Triangle, Ferndale Homes and Montgomery Place.

Through LPHI, Ayala Land continued to address the underserved demand for mass housing. With intensified sales efforts, LPHI's sales bookings in 2003 totaled 1,451 units, 29% higher than previous year's 1,121. Revenues grew by 31% to ₱1.86 billion, representing 13% of consolidated revenues. During the year, LPHI ventured into its first medium-rise residential building project, One Aeropolis in Sucat, Parañaque, as well as Sta. Arcadia Estates, its first mass housing project in Northern Luzon. At the end of 2003, 82% of the units at the first tower of One Aeropolis, soft launched in June, was taken up, leading to the launch of the 2nd tower in November. Sta. Arcadia Estates, launched in October, posted a 16% take-up rate for its 167-unit initial phase.

The core-middle income residential segment, through CII, contributed ₱658 million or 5% to total revenues. With Verdana Homes' full sell-out in 2003, CII focused on the sale of The Columns, its three-tower residential complex within Makati. Given encouraging market response in the first two towers, the third tower was launched ahead of schedule in November. By year-end, take-up rates were posted at 93%, 71% and 13% for the first, second and third tower, respectively. To complete the community offering at Verdana Homes, CII launched the Verdana Village Center in the third quarter. Five out of the 18 commercial lots put on the market were sold as of year-end.

Revenues from hotel operations contributed 9% to total revenues or ₱1.28 billion, slightly lower by 2%, reflecting reduced occupancy rates and lower room rates of hotels at the Makati Central Business District in general. Average occupancy rates at Hotel Intercontinental Manila and Oakwood Premier Ayala Center, both at 75% in 2002, declined to 66% and 69%, respectively. Partly cushioning the Company's hotel revenues, however, was Cebu City Marriott Hotel which posted an improved average occupancy rate of 76% from 65% in the previous year, as well as higher room rates. Compared to their respective markets, Ayala Land's hotel portfolio still did better in terms of occupancy. Makati hotels' average occupancy rate was 63% while occupancy rates at Cebu hotels averaged at 66%.

Construction arm Makati Development Corporation contributed ₱ 759 million or 5% to consolidated revenues. This represents an 18% decline year-on-year as opportunities in the construction sector continued to be limited.

**Financial Condition - Year 2003**

During the year, Ayala Land pursued new strategic projects and investments, including the acquisition of a controlling stake in Bonifacio Land Corporation (BLC) in April. This assures the Company ample supply of prime lot inventory for future developments. Given the Company's continuing investments, total assets grew by 8% year-on-year to ₱67.01 billion as of end-2003.

Meanwhile, stockholders' equity leveled at ₱35.27 billion, slightly lower primarily due to the special cash dividend of ₱0.26 per share paid to stockholders in the fourth quarter. The increased dividend yield is part of the Company's continuing effort to reduce its capital base in tandem with its ongoing asset rationalization program.

Ayala Land's excellent financials and credit standing were reflected in the successful issuance of ₱2.0 billion five-year bonds in November. The bond issue received the highest possible rating of PRS Aaa from PhilRatings and found strong support from investors. This borrowing, together with new bank loans, brought total borrowings to ₱14.38 billion by end-2003. While this is higher than end-2002 level of ₱10.87 billion, the Company's bank debt-to-equity ratios were still at comfortable levels of 0.41:1 and 0.27:1, respectively. Ayala Land remained highly liquid with a current ratio at 1.78:1. In addition to the sale of non-strategic assets, liquidity was enhanced by sale of seasoned installment receivables to banks on a no-recourse basis.

**Project and Capital Expenditure – Year 2003**

In 2003, Ayala Land (parent company) disbursed ₱5.2 billion or 66% of the ₱7.9 billion project and capital expenditures budget for the year. These disbursements included the ₱2.6 billion investment in BLC. The rest were spent on residential building projects, commercial centers, residential subdivision projects and office building improvements.

**Material Changes 2003 vs 2002**

Income Statement items

*18% increase in real estate revenues*
Principally due to sales of new projects such as Ayala Hillside Estates, Plantazionne Verdana Homes, One Legazpi Park, The Residences at Greenbelt (Laguna Tower), The Columns and new mass housing projects; higher sales bookings at Ayala Westgrove Heights and Ferndale Homes; lot sales at Madrigal Business Park and Laguna Technopark in 2003; and higher rental revenues from shopping centers given new spaces at Greenbelt 2 & 3 as well as escalation in basic rent.

*66% increase in interest and other income*
Mainly due to gain on sale of shares of a landholding company and higher interest income from installment sales of mass housing projects.

*27% increase in real estate cost and expenses*
Mainly due to higher real estate revenues and change in revenue/product mix.

*17% increase in general and administrative expenses*
Primarily due to professional fees, higher payroll costs and ad & promo expenses; and additional expenses from new subsidiaries such as Ayala Land Sales, Inc. and Community Innovations, Inc.

*118% increase in interest and other charges*
Principally due to payment of unpaid balances in real estate property taxes, higher consolidated debt and higher effective interest rate.

*30% decrease in provision for income tax*
Basically due to lower taxable income as a result of the higher general and administrative expenses and interest and other charges.

*273% increase in net earnings applicable to minority interest*
Largely due to higher net income from Laguna Technopark, Inc.

<u>Balance Sheet items</u>

*15% decrease in cash and cash equivalents*
Mainly due to the investment in Bonifacio Land Corporation and special cash dividends; partly offset by proceeds from the bond issuance and sale of non-strategic properties and investments.

*14% increase in current portion of accounts and notes receivables*
Primarily due to the increase in real estate sales.

*21% increase in condominium and residential units for sale*
Mainly due to the construction progress at new residential building projects such as One Legazpi Park, The Residences at Greenbelt (Laguna Tower) and The Columns.

*31% increase in deferred tax and other current assets*
Due to higher input VAT and creditable withholding tax.

*35% increase in non-current accounts and notes receivables*
Largely due to increase in installment sales at various projects.

*21% increase in investments*
Primarily due to the investment in Bonifacio Land Corporation, additional construction costs for Market!Market! and Greenbelt redevelopment, and acquisition of the former Ayala Museum site from Ayala Corporation.

*25% decline in loans payable*
Principally due to short-term loan repayment.

*79% decline in income tax payable*
Mainly due to lower income subject to the 32% corporate income tax.

*331% increase in current portion of long-term debt*
Largely due to reclassification of maturing principal amortization of long-term debt.

*71% increase in current portion of estimated liability for land and property development*
Primarily due to new sales at existing and new projects.

*34% increase in long-term debt (net of current portion)*
Principally due to bond issuance and new long-term loan availment.

*12% increase in non-current liabilities and deposits*
Largely due to deposits from new tenants/merchants at Ayala Center.

*68% increase in non-current portion of estimated liability for land and property development*
Primarily due to new sales at existing and new projects.

**Results of Operations –Year 2002**

By sharply focusing on new niche markets and strengthening its retail rental portfolio, Ayala Land withstood the continued pressure on growth and profitability. Ayala Land ended 2002 with a net income of ₱2.52 billion, 10% higher than 2001, generated from ₱12.21 billion of consolidated revenues, which grew by 5% year-on-year.

Leasing operations continued to be the biggest revenue source, with rentals from shopping centers and office buildings contributing ₱3.33 billion or 27% to total revenues. Ayala Land opened Greenbelt 2 and 3 in May and immediately established the area as the preferred dining and entertainment center. At the end of the year, overall occupancy rate at the Ayala Center averaged at 92%. Without Greenbelt 2 and 3, the Center's occupancy rate averaged at 96%. The 28-unit Residences at Greenbelt was completed last December and is now being offered for lease to augment Ayala Land's rental income. In June, Ayala Land started to develop Market!Market!, a value mall near Fort Bonifacio. As in previous years, Ayala Land's office buildings showed above-market performance with an average occupancy rate of 92% versus Makati Central Business District's 85%. Ayala Land's office lease rates also continued to command a premium over those of competitors.

Land sales, mostly from residential subdivisions, amounted to ₱2.58 billion, accounting for 21% of consolidated revenues. This represented a growth of 21% year-on-year, primarily due to new residential subdivision projects such as the Verdana Homes in Cavite and Ayala Hillside Estates in Quezon City. Targeting the core middle-income market, Verdana Homes offered a total of 457 lots in two phases and proved highly successful with a 99% take-up rate at the end of 2002. Ayala Hillside Estates, a high-end residential community built around a golf course, was launched in September and posted a year-end take-up rate of 87% on the 55 Ayala Land-owned lots in the initial phase of this subdivision. Continuing investments and project enhancements boosted sales at the Ayala South communities. Significantly adding value to Ayala Greenfield Estates was the launch in October of Ayala Greenfield Golf and Leisure Club which re-positioned the subdivision as a golf and leisure community and pushed sales take up to 80% of 363 lots. At Ayala Westgrove Heights, additional phases were offered for sale during the year, bringing cumulative offering to a total of 1,094 lots, 86% of which was taken up by year-end.

Residential unit sales, consisting of condominium, townhouse and single-detached units, contributed ₱1.57 billion of 13% of total revenues. Strong take-up at One Legaspi Park launched in March 2002 confirmed Ayala Land's assessment of the market prospects for relatively affordable condominium units. At the end of the year, this 369-unit condominium project was 73% taken-up. Additional unit offerings at Montgomery Place and Ferndale Homes continued to generate buyer interest. Three-fourths of the 270 townhouse units at Montgomery Place have been taken up at the end of 2002 while 83% of the 132 house-and-lots at Ferndale Homes were taken up. Despite the difficult market in the luxury condominium segment, sales at the 182-unit One Roxas Triangle improved to 63% at the end of 2002 from 50% in the previous year.

Brisk take-up at the newly-launched projects of LPHI boosted mass housing revenues to ₱1.45 billion, representing 12% of consolidated revenues and a 77% year-on-year growth. This was a result of a significant increase in booked units sales to 1,121 units in 2002 versus 806 units in the previous year. Including reservations, take up during 2002 totaled to 1,464 units. New projects such as Sta. Catalina Village in Cavite, as well as St. Alexandra Estates and St. Gabriel Heights in Antipolo, outsold competition in their respective areas. Villa Sta. Monica and

Hacienda Sta. Monica in Lipa, Batangas offered residential and farm lots during the year and were also well received. A new representative office in Rome was opened in October to tap overseas workers market in Italy.

Despite the low-rate strategy being adopted in the hotel sector, revenues from hotel operations was at ₱1.31 billion and contributed 11% to total revenues in 2002. Higher occupancy rates allowed Ayala Land to even out the effects of lower room rates. Hotel InterContinental and Oakwood Premier Ayala Center continue to post above-market occupancy rates, both averaging at 75% versus Makati Central Business District hotels' average of 66%. Cebu City Marriott Hotel's occupancy rate averaged at 65%, also above Cebu hotel market's 56%.

Construction revenues of ₱922 million made up 8% of total revenues. This represents a decrease of 41% year-on-year due to the completion in 2001 of Makati Development Corporation's (MDC) big projects such as City Sports Club Cebu and Globe Telecom Building. MDC continued to serve the construction needs of Ayala Land and its subsidiaries which accounted for 64% of its revenues. The balance represented construction contracts, obtained through competitive bids, from both private and public sectors.

**Financial Position**

Ayala Land's sound fundamentals continued to be underscored by its strong balance sheet. Ayala Land readily serviced its obligations, including the ₱6.0 billion long-term commercial papers which matured in March and April 2002. The issuance of a ₱3.0 billion Peso-denominated bond and ₱1.06 billion fixed rate corporate notes partly funded Ayala Land's requirements for debt servicing, project and capital expenditures, and working capital.

Maintaining its conservative view on borrowings, Ayala Land's interest-bearing debt remained low at ₱10.87 billion. As such, debt-to-equity and net debt-to-equity ratios were kept at comfortable levels of 0.31:1 and 0.15:1, respectively. Liquidity was well-preserved as seen in the high current ratio of 2:1 and cash reserves of ₱5.71 billion.

**Project and Capital Expenditures**

Actual project and capital expenditures for 2002 amounted to P2.64 billion, 5% higher than 2001 actual expenditures but 37% lower compared to the ₱4.2 billion budget for the year. The bulk of the 2002 disbursements were incurred for residential buildings and shopping center projects.

**Material Changes 2002 vs 2001**

<u>Income Statement items</u>

*17% decline in Equity Earnings and Other Income*
Mainly due to lower interest income and equity earnings in 2002

*25% increase in General and Administrative Expenses*
Primarily due to higher payroll and higher amortization of ERP software development costs, as well as overhead costs of new subsidiaries

*11% decrease in Interest and Other Charges*
Mainly due to lower average effective borrowing rate in 2002

*22% increase in Provision for Income Tax*
Primarily due to higher income and higher effective income tax rate in 2002

*150% increase in Net Earnings (Loss) Applicable to Minority Interest*
Mainly due to improved 2002 bottomline of Roxas Land Corporation versus 2001

*10% increase in Net Income*
Primarily due to higher real estate margins in 2002

<u>Balance Sheet items</u>

*15% decline in Cash and Cash Equivalents*
Mainly due to payments in 2002 of the ₱6.0 billion LTCPs of Ayala Land

*32% decrease in Condominium and Residential Units for Sale*
Primarily due to sale of units at One Roxas Triangle and mass housing projects

*94% increase in Non-current Accounts and Notes Receivable*
Largely due to increase in sales of various projects of Ayala Land and subsidiaries

*14% increase in Property and Equipment*
Mainly due to additional investment in ERP software by Ayala Land and its subsidiaries, and purchase of new machinery and equipment by Makati Development Corporation

*11% decline in Other Assets*
Largely due to decrease in deferred charges of Makati Development Corporation

*21% decrease in Accounts Payable and Accrued Expenses*
Primarily due to settlement of outstanding accounts payable to suppliers

*155% increase in Bank Loans*
Mainly due to new loan availment of Ayala Land (parent), Roxas Land Corp. and LPHI

*71% increase in Income Tax Payable*
Primarily due to higher income in 4Q2002 and higher effective income tax rate

*95% decline in Current Portion of Long-term Debt*
Largely due to payment of ₱6 billion LTCPs of Ayala Land which matured in the first semester of 2002

*66% increase in Estimated Liability for Land and Property Development*
Primarily due to higher sales at existing and new projects

*13% decrease in Other Current Liabilities*
Mainly due to the decline in deferred income tax of a subsidiary

*130% increase in Long-term Debt (net of current portion)*
Mainly due to new borrowings, including the ₱3.0 billion bond issued by Ayala Land in 2002

*14% increase in Estimated Liability for Land and Property Development (net of current portion)*
Primarily due to higher sales at existing and new projects.

## Key Performance Indicators of Ayala Land, Inc. and Subsidiaries

*Ayala Land, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.69:1 | 1.71:1 | 1.78:1 |
| Debt-to-equity ratio[2] | 0.29:1 | 0.36:1 | 0.41:1 |
| Net debt-to-equity ratio[3] | 0.08:1 | 0.19:1 | 0.27:1 |
| | | | |
| Return on assets[4] | 3.5% | 4.5% | 4.4% |
| Return on equity[5] | 6.8% | 8.5% | 7.7% |

*Laguna Properties Holdings, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 2.50:1 | 1.03:1 | 0.87:1 |
| Debt-to-equity ratio[2] | 0.45:1 | 1.39:1 | 1.93:1 |
| Net debt-to-equity ratio[3] | 0.38:1 | 1.17:1 | 1.65:1 |
| | | | |
| Return on assets[4] | 2.4% | 4.3% | 4.0% |
| Return on equity[5] | 5.7% | 10.2% | 8.9% |

*Makati Development Corporation*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.28:1 | 1.19:1 | 1.12:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.72:1 | -0.68:1 | -0.53:1 |
| | | | |
| Return on assets[4] | 9.4% | 14.7% | 8.3% |
| Return on equity[5] | 30.3% | 48.4% | 30.6% |

*Community Innovations, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.73:1 | 1.22:1 | 1.22:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.11:1 | -0.21:1 | -0.68:1 |
| | | | |
| Return on assets[4] | 9.6% | 9.4% | 14.1% |
| Return on equity[5] | 20.1% | 21.2% | 37.8% |

*Ayala Land Sales, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 3.13:1 | 1.24:1 | 1.09:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.21:1 | -0.41:1 | -0.85:1 |
| | | | |
| Return on assets[4] | 9.7% | 7.7% | 0.6% |
| Return on equity[5] | 31.6% | 40.4% | 2.0% |

*Ayala Property Management Corporation*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.27:1 | 1.14:1 | 1.16:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.78:1 | -0.76:1 | -0.84:1 |
| | | | |
| Return on assets[4] | 25.1% | 41.4% | 41.6% |
| Return on equity[5] | 101.8% | 157.4% | 138.9% |

*Ayala Theatres Management, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.60:1 | 1.63:1 | 2.44:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.10:1 | -0.02:1 | -0.08:1 |
| | | | |
| Return on assets[4] | 12.0% | 11.1% | 11.8% |
| Return on equity[5] | 30.0% | 18.5% | 17.2% |

*Five Star Cinema, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.17:1 | 1.05:1 | 1.03:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -6.05:1 | -12.32:1 | -13.33:1 |
| | | | |
| Return on assets[4] | 41.4% | 97.5% | 80.0% |
| Return on equity[5] | 709.4% | 1425.7% | 648.9% |

*Red Creek Properties, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 8,011:1 | 9,752:1 | 43:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.01:1 | -0.01:1 | -0.31:1 |
| | | | |
| Return on assets[4] | 0.0% | -0.2% | 0.1% |
| Return on equity[5] | 0.0% | -0.2% | 0.1% |

*Station Square East Commercial Corporation*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.85:1 | 1.44:1 | 3.08:1 |
| Debt-to-equity ratio[2] | 0.87:1 | 0.99:1 | 0.99:1 |
| Net debt-to-equity ratio[3] | 0.80:1 | 0.93:1 | 0.73:1 |
| | | | |
| Return on assets[4] | -0.8% | 0.0% | 0.3% |
| Return on equity[5] | -1.7% | 0.1% | 0.4% |

*Aurora Properties, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 0.00:1 | 0.01:1 | 0.00:1 |
| Debt-to-equity ratio[2] | 0.03:1 | 0.03:1 | 0.03:1 |
| Net debt-to-equity ratio[3] | 0.03:1 | 0.03:1 | 0.03:1 |
| | | | |
| Return on assets[4] | 0.0% | 0.0% | 0.0% |
| Return on equity[5] | 0.0% | 0.0% | 0.0% |

*Vesta Property Holdings, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 4.14:1 | 3.71:1 | 3.56:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | 0.00:1 | 0.00:1 | 0.00:1 |
| | | | |
| Return on assets[4] | 0.0% | 0.0% | 0.0% |
| Return on equity[5] | 0.0% | 0.0% | 0.0% |

*Laguna Technopark, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 2.83:1 | 4.30:1 | 4.42:1 |
| Debt-to-equity ratio[2] | 0.14:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.35:1 | -0.39:1 | -0.33:1 |
| | | | |
| Return on assets[4] | 3.1% | 4.2% | 3.9% |
| Return on equity[5] | 5.9% | 8.3% | 7.7% |

*Ayala Hotels, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 21.37:1 | 14.38:1 | 8.16:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.05:1 | 0.00:1 | -0.02:1 |
| | | | |
| Return on assets[4] | 7.5% | 0.4% | 2.3% |
| Return on equity[5] | 7.6% | 0.4% | 2.4% |

*Cebu Insular Hotel Company, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 0.81:1 | 0.58:1 | 0.77:1 |
| Debt-to-equity ratio[2] | 0.27:1 | 0.42:1 | 0.57:1 |
| Net debt-to-equity ratio[3] | 0.19:1 | 0.31:1 | 0.45:1 |
| | | | |
| Return on assets[4] | 5.3% | 2.6% | 1.1% |
| Return on equity[5] | 8.4% | 4.5% | 1.9% |

*Enjay Hotels, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.22:1 | 1.00:1 | 1.82:1 |
| Debt-to-equity ratio[2] | 0.00:1 | 0.00:1 | 0.00:1 |
| Net debt-to-equity ratio[3] | -0.38:1 | -0.28:1 | -0.20:1 |
| | | | |
| Return on assets[4] | 2.6% | -14.3% | 0.3% |
| Return on equity[5] | 3.6% | -16.5% | 0.4% |

*Makati Property Ventures, Inc.*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 0.95:1 | 1.06:1 | 0.84:1 |
| Debt-to-equity ratio[2] | 0.33:1 | 0.45:1 | 0.59:1 |
| Net debt-to-equity ratio[3] | 0.16:1 | 0.25:1 | 0.42:1 |
| | | | |
| Return on assets[4] | 4.1% | 4.4% | 0.4% |
| Return on equity[5] | 6.3% | 7.6% | 0.8% |

*Ayala Greenfield Development Corporation*

| (₱ millions) | 3Q2005 unaudited | 2004 | 2003 |
|---|---|---|---|
| Current Ratio[1] | 1.52:1 | 0.59:1 | 1.46:1 |
| Debt-to-equity ratio[2] | 0.51:1 | 0.57:1 | 0.47:1 |
| Net debt-to-equity ratio[3] | 0.40:1 | 0.53:1 | 0.39:1 |
| | | | |
| Return on assets[4] | 6.1% | 5.4% | 3.7% |
| Return on equity[5] | 14.2% | 11.8% | 9.0% |

[1] *Current assets / current liabilities*
[2] *Total interest-bearing debt (inclusive of bonds and CPs) / stockholders' equity*
[3] *Interest-bearing debt less cash & cash equivalents / stockholders' equity*
[4] *Net income / total assets (at the beginning of the year)*
[5] *Net income / stockholders' equity (at the beginning of the year)*

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Likewise, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

**External Audit Fees and Services**

Ayala Land and its subsidiaries paid its external auditors the following fees in the past two years: *(in ₱ million; with VAT)*

| | Audit & Audit-related Fees | Tax Fees | Other Fees |
|---|---|---|---|
| 2004 | 6.5* | - | 1.1** |
| 2003 | 6.2* | - | 3.1*** |

**Pertains to audit fees; no fees for other assurance and related services*
***Pertains to fees paid for bank reconciliation services*
****Pertains to fees for business process review and audit seminar conducted*

Under paragraph D.3.1 of the ALI Audit Committee Charter, the ALI Audit Committee recommends to the Board and stockholders the appointment of the external auditor and the fixing of audit fees. The Board and stockholders approve the Audit Committee's recommendation.

Tax consultancy services are secured from entities other than the appointed external auditor.

# CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

SyCip Gorres Velayo & Company, independent public accountants and a member of Ernst and Young, audited the Ayala Land, Inc. financial statements and schedules for the years ended 31 December 2002, 2003 and 2004, included in this Prospectus and has the following registration numbers:

| | |
|---|---|
| CPA Cert. # | 36317 |
| PTR # | 1995834 |
| SEC Accreditation # | 0069-A |

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis. Accounting principles/policies and methods of computation applied for the nine months ended September 30, 2005 are the same as those applied in the preceding calendar year, except for the adoption of new accounting standards based on the revised Philippine Accounting Standards (PAS) and new Philippine Financial Reporting Standards (PFRS) which became effective beginning January 1, 2005. The new accounting standards pertain to the accrual of retirement benefits (PAS 19), non-capitalization of foreign exchange losses (PAS 21), earlier recognition of stock option grants (PFRS 2), and cessation of the amortization of goodwill (PFRS 3). These lowered the net income for the first nine months of 2004 by P85 million, increase the 2004 beginning retained earnings by P92 million and decrease the 2005 beginning retained earnings by P17 million.

Among the new accounting standards that will also be adopted by the Company in 2005 are PAS 32 and PAS 39.

PAS 32, *Financial Instruments: Disclosure and Presentation,* covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial instruments. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form. Disclosures required by PAS 32 will be included in the December 31, 2005 financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement,* establishes the accounting and reporting standards for recognizing and measuring a company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to measured at fair value.

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

Ayala Land and its subsidiaries have formed an implementation team that is currently assessing the operational and financial statement impact of PAS 32 and PAS 39. Among the implementation activities include the following:

a. Review of all financial and non-financial contracts to identify and bifurcate (where required) embedded derivatives;
b. Classification and measurement of financial assets and financial liabilities;
c. Evaluation of financial instruments as to whether these should be classified as debt or equity, depending on their features;
d. Review of existing hedge accounting treatment for qualifying hedges and compliance with hedge accounting criteria, particularly on documentation and effectiveness testing; and
e. Enhancement of existing processes and systems relating to validation of financial instruments, monitoring of effectiveness results as these flow through the financial statements, and monitoring of the impact of bifurcated embedded derivatives.

Under PAS 39, all derivative instruments (both freestanding and embedded) as well as financial instruments classified under the categories "Financial Instruments at Fair Value through Profit or Loss" and "Available for Sale" categories will be measured at fair value which may add volatility in the consolidated balance sheets and consolidated statements of income. However, the quantitative impact of adopting PAS 39 will be determined only upon substantial completion of the foregoing implementation activities. The effect of adopting PAS 32 and PAS 39 in 2005 will be computed retroactively and adjusted against 2005 beginning retained earnings. Disclosure requirements, where applicable, will be included in the 2005 financial statements. Prior years' consolidated financial statements will not be restated as allowed under Securities and Exchange Commission (SEC) rules.

There were no disagreements with any accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, nor was there any resignation or dismissal of any accountant who was previously engaged as the principal accountant to audit Ayala Land's financial statements, or an independent accountant who was previously engaged to audit a significant subsidiary and on whom the principal accountant expressed reliance in its report.

**Description of Forex Losses**

In respect of foreign exchange losses capitalized in Ayala Land's financial statements in this Prospectus, please be guided by the following breakdown expressed in Pesos:

| Period | Amount |
|---|---|
| 2002 | ₱184,000,821.00 |
| 2003 | ₱179,885,974.68 |
| 2004 | ₱115,569,487.28 |

The above amounts represent balances after reflecting amortization/depreciation (based on depreciation of the building). Capitalized foreign exchange losses relate to US Dollar loans procured for hotel subsidiaries. See "Description of Certain Other Debt" on page 118 of this Prospectus.

**Contingent Obligation**

Ayala Land and its subsidiaries are contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or under negotiation, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

# DIRECTORS, EXECUTIVE OFFICERS AND CONTROL PERSONS

The table below shows the name and position of each person who served as a director, executive officer or key management personnel of Ayala Land as of September 30, 2005:

| BOARD OF DIRECTORS | POSITION | NATIONALITY |
|---|---|---|
| Fernando Zobel de Ayala | Chairman | Filipino |
| Jaime Augusto Zobel de Ayala II | Vice Chairman | Filipino |
| Jaime I. Ayala | President & CEO | Filipino |
| Mercedita S. Nolledo | Director & Corporate Secretary | Filipino |
| Aurelio R. Montinola III | Director | Filipino |
| Nieves R. Confesor* | Director | Filipino |
| Ramon R. del Rosario, Jr.* | Director | Filipino |
| Delfin L. Lazaro | Director | Filipino |
| Leandro Y. Locsin, Jr.* | Director | Filipino |

*Independent directors appointed to the Board of Ayala Land pursuant to the requirements of the Securities Regulation Code.

The directors of Ayala Land are elected during its Regular General Meeting and are mandated to hold office for a term of one (1) year or until their successors are elected and qualified.

| MANAGEMENT COMMITTEE / KEY OFFICERS | POSITION | NATIONALITY |
|---|---|---|
| Jaime I. Ayala | President & CEO | Filipino |
| Vincent Y. Tan | Executive Vice President | Filipino |
| Miriam O. Katigbak | Executive Vice President | Filipino |
| John Philip S. Orbeta | Senior Vice President | Filipino |
| Angela V. Lacson | Senior Vice President | Filipino |
| Rex Ma. A. Mendoza | Senior Vice President | Filipino |
| Jaime E. Ysmael | Senior Vice President & Chief Finance Officer | Filipino |
| Bernard Vincent O. Dy | Vice President | American |
| Ma. Victoria E. Añonuevo | Vice President | Filipino |
| Rene D. Almendras | Vice President | Filipino |
| Emilio J. Tumbocon | Vice President | Filipino |
| Ma. Cynthia H. Poblador** | Vice President | Filipino |
| Raul M. Irlanda | Vice President | Filipino |
| Dinna G. Bayangos | Vice President | Filipino |
| Augusto D. Bengzon | Vice President & Treasurer | Filipino |

** Resigned as of October 22, 2005

**Fernando Zobel de Ayala**, 45, Filipino, has served as Chairman of the Board of Directors of ALI since 1999. He is also an Executive Managing Director, Co-Vice Chairman of the Board of Directors and Member of the Executive Committee of Ayala Corporation. His other significant positions include: Chairman of Manila Water Company, Inc., Roxas Land Corporation, Ayala Hotels, Inc., AC International Finance Ltd., and Alabang Commercial Corporation; Vice-Chairman of Ayala International Pte. Ltd.; Co-Vice Chairman and Trustee of Ayala Foundation, Inc.; Director of the Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Microelectronics Inc. (IMI), and Habitat for Humanity International. He graduated with B.A. Liberal Arts at Harvard College in 1982.

**Jaime Augusto Zobel de Ayala II**, 46, Filipino, has served as Director and member of the Executive Committee of ALI since 1988. He also serves as the Co-Vice Chairman of the Board of Directors, Member of the Executive Committee and Management Committee and President and CEO of Ayala Corporation; Chairman of the Board of Directors of Globe Telecom, Inc., Bank of the Philippine Islands, Ayala International Pte. Ltd., Integrated Microelectronics, Inc., and Azalea Technology Investment, Inc. His other significant positions include: Co-Vice Chairman and Trustee of Ayala Foundation, Inc.; Member of the Board of Directors and Advisory Council to the World Wildlife Fund; Member of the Board of Trustees of Asian Institute of Management and Carlos P. Romulo Foundation for Peace and Development. He graduated with B.A. in Economics (Cum Laude) at Harvard College in 1981 and took his MBA (with Distinction) at the Harvard Graduate School of Business Administration in 1987.

**Jaime I. Ayala**, 43, Filipino, has served as Director of ALI since 2004. He also serves as President and CEO of ALI. Concurrently, he is Managing Director of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors of Cebu Holdings, Inc., Cebu Insular Hotel Co., Inc., Makati Development Corp., LPHI, Community Innovations, Inc., Station Square East Commercial Corp., and Makati Property Ventures, Inc.; Director and President of Ayala Hotels, Inc., Enjay Hotels, Inc., Vesta Property Holdings, Inc. and Roxas Land Corporation; Director of Ayala Land Sales, Inc., Alabang Commercial Corp., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Berkshire Holdings, Inc., Bonifacio Arts Foundation Inc., myAyala.com Inc., , Makati Parking Authority and World Wildlife Fund in the Philippines (WWF). Prior to joining ALI, he spent 19 years with McKinsey & Company in the US, Mexico, China, and Southeast Asia. At McKinsey, he was a Director (senior partner) and played a number of global and regional leadership roles, including President of McKinsey's Manila office. He earned his M.B.A. from Harvard School, graduating with honors in 1988. He completed his undergraduate work in 1984 at Princeton University, where he graduated Magna Cum Laude in Economics, with a minor in Engineering.

**Mercedita S. Nolledo**, 64, Filipino, has served as Director and Corporate Secretary of ALI since 1994. She also serves as Board member, Senior Managing Director and Corporate Secretary of Ayala Corporation, and General Counsel of the Ayala Group of Companies. Her other significant positions include: Director of Ayala Aon Risk Services, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings, Inc., and Bank of the Philippine Islands; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc. (AFI); Director and Treasurer of Phil. Tuberculosis Society, Inc. She had her education at University of the Philippines and graduated Magna Cum Laude and Class Valedictorian in Bachelor of Science in Business Administration and Cum Laude and Class Valedictorian in Bachelor of Laws.

**Aurelio R. Montinola, III**, 54, Filipino, is the President and CEO of Bank of the Philippine Islands. His other significant positions include: Chairman of the Board of Directors of BPI Direct Savings Bank, BPI Computer Systems Corporation, BPI/MS Insurance Corporation, Amon Trading Corporation, Monti-Rey, Inc., Desrey, Inc., Seyrel Investment & Realty Corp., Armon Realty, and Derrc, Inc.; Vice Chairman of the Board of Directors of Ayala Life Assurance, Inc., Republic Cement Corporation, FEU-East Asia College and Regional Vice Chairman of the Board of Directors of MasterCard International; Vice Chairman of the Board of Trustees of Far Eastern University; Member of the Board of Directors of BPI Family Bank, BPI Bancassurance, Inc., Universal Malayan Reinsurance Corp., Ayala Land, Inc., Manila Water Company, Western Resources, and Bankers Association of the Philippines. He graduated with BS in Management Engineering at Ateneo de Manila University in 1973 and took his MBA at the Harvard Business School in 1977.

**Nieves R. Confesor**, 55, Filipino, has served as an Independent Director of ALI since 2003. A member of the faculty of the Asian Institute of Management, she also served as Dean of the Institute in 2002-2004, bringing the institution forward into the community of European and

American accredited business schools. She presently serves as Chairman of the Government Peace Panel in the negotiations with the Communist Party of the Philippines-National Democratic Front- New People's Army. She serves as an adviser, external collaborator to the World Bank, the Asian Development Bank, the International Labor Organization, and the ASEAN secretariat as well as private companies like the Metropolitan Bank and Trust Corporation, Philippine National Oil Company, Philippine National Coal Corporation; local and international organizations such as the Philippine Agency for the Improvement of Community and Family, Inc. (PACAF), the Miriam College Foundation, Philippine Youth for Business, the Operating Council of the Global Alliance for Workers based in Washington D.C., USA; the International System for National Agricultural Research. She also served as presidential adviser on Human Resource Development and International Labor Affairs to former Philippine President Fidel V. Ramos, with the personal rank of Ambassador of Extraordinary and Plenipotentiary. She also served as the Philippines' first woman Secretary of Labor and Employment during the Corazon C. Aquino and Fidel V. Ramos administrations. In 1992, in recognition of her excellent service in government, she was named one of the Ten Outstanding Women in the Nation's Service (TOWNS) and received the Outstanding Service Award by the Philippine Civil Service Commission. She holds a Master in Public Policy and Administration from Harvard University in 1990 as an Edward S. Mason Fellow; had her Master in Business Administration from the Graduate School of Business of the Ateneo de Manila University in 1978; took special courses in Labor and Employment and in Asian Studies at the University of the Philippines and in International Economics, Negotiations, Women in Politics at Harvard University. She completed Bachelor of Arts in Literary Studies (Magna Cum Laude and Class Valedictorian) at Maryknoll College in 1971.

**Ramon R. del Rosario, Jr.,** 61, Filipino, has served as an Independent Director of ALI since 1994 and is the Chairman of the Audit Committee. His other significant positions include: President and CEO of the Philippine Investment Management Consultants, Inc. (PHINMA).; Chairman and CEO of AB Capital and Investment Corp.,; Chairman of the Board of Directors of Araullo University, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., Paramount Building Management and Services Corp., and Stock Transfer Service, Inc.; Vice Chairman and President of Bacnotan Consolidated Industries, Inc. and Asiacoal Corp.; Director of Bacnotan Steel Industries, Inc., Holcim (formerly Union Cement Corp.), Trans-Asia Oil & Energy Dev't Corp., Bacnotan Industrial Park Corp., Phinma Property Holdings, Corp. PHINMA Foundation, Inc., Walden AB Ayala Ventures Co., Inc., Walden AB Ayala Management Co., Inc., PSI Technologies, Inc., PSI Technologies Holdings, Inc. and Roxas Holdings, Inc. He graduated with degrees in BSC-Accounting and AB-Social Sciences (Magna cum Laude) at the De La Salle University, in 1967 and earned his Masters in Business Administration at the Harvard Business School in 1969.

**Delfin L. Lazaro**, 59, Filipino, has served as member of the Board of Directors of ALI since 1996. He is also the Chief Finance Officer and a member of the Management Committee of Ayala Corporation; Director and Chairman of the Executive Committee of Globe Telecom, Inc.; Director of Integrated Microelectronics, Inc., Manila Water Co., and Ayala Automotive Holdings Corp. Formerly, Mr. Lazaro was the President and CEO of Benguet Corporation and Secretary of the Department of Energy of the Philippine government. He was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successively high growth levels up to the Asian crisis in 1997. He graduated with BS Metallurgical Engineering at University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

**Leandro Y. Locsin, Jr.,** 43, Filipino, has served as an Independent Director of ALI since 1994. He also serves as Administrator and Design Consultant of Leandro V. Locsin Partners Architects; Senior Vice President of C-J Yulo & Sons and Canlubang Sugar Estate; Director of World Wildlife Fund, Phils., The Beacon School, De La Salle University - Canlubang, Vesta Holdings Corp., The Asian Cultural Council Philippines and Trustee of Museo Pambata ng Maynila. He graduated with Bachelor of Arts, Double Major in Architecture and Eastern Art History at Wesleyan University, Middletown, Connecticut, USA and had his Masters in Architecture at Harvard University Graduate School of Design, Cambridge, Massachusetts, USA in 1989.

**Vincent Y. Tan**, 55, Filipino, is Executive Vice-President, member of the Management Committee and Head of the Planning Group of ALI. His other positions include: Chairman of the Board of Laguna Technopark, Inc.,; Member of the Board of Directors of Aurora Properties, Inc., Vesta Property Holdings, Inc., Station Square East Commercial Corporation, Fort Bonifacio Dev't Corp., Bonifacio Land Corp., Columbus Holdings, Inc., Emerging City Holdings, Inc., Berkshire Holdings, Inc., Bonifacio Arts Foundation, Inc., MRT Holdings, Inc., Metro Rail Transit Corp., Metro Rail Transit Holdings, Inc., Metro Rail Transit Holdings, III Inc. and Metro Rail Triangle Depot Commercial Corp. He graduated with a degree of B.S. Management Engineering at the Ateneo de Manila University in 1971 and earned his Masters in Business Administration, Concentrations in Management Science and Finance, at the University of Chicago in 1973.

**Miriam O. Katigbak**, 51, Filipino, is Executive Vice-President, member of the Management Committee and Head of the Commercial Centers Group of Ayala Land, Inc. (ALI). Her other significant positions include: Director of Cebu Holdings, Inc. and Alabang Commercial Corporation; President of Ayala Theaters Management, Inc., Director and President of Station Square East Commercial Corp., North Triangle Depot Commercial Corp. and ALI-CII Development Corp.; President of Five-Star Cinema Corp.; Chairman of Leisure and Allied Industries (Phils.), Inc.; Vice Chairman and Director of Lagoon Development Corporation and Governor of Ayala Center Association. She graduated with Bachelor of Science in Education, Major in Mathematics at St. Scholastica's College. She took the Management Development Program at Asian Institute of Management in 1993 and at University of Michigan in 1997.

**John Philip S. Orbeta,** 44, Filipino, joined Ayala Land in May 2005 as Senior Vice President and Head of the Human Resources Division. Concurrently, he is Managing Director and Head of the Strategic Human Resources Development of Ayala Corporation. He is also President of J & E Prime Overseas Property Holdings, Inc. Prior to his appointment in the Ayala Group, he was Vice President and Global Practice Director for the Human Capital Consulting Group of Watson Wyatt Worldwide, Regional Practice Leader for the Human Capital Group of Watson Wyatt Worldwide – Asia Pacific, and Vice President and Corporate Officer of Watson Wyatt & Company. He received his bachelor's degree in AB Economics from Ateneo de Manila University. He also completed Watson Wyatt's Leadership Development Program at the Harvard Business School.

**Angela de Villa-Lacson**, 59, Filipino, joined ALI in July 1999. She is a Senior Vice President, a member of the Management Committee, and Group Head of the Ayala Land Premier Group. Her other significant positions include: Director of Community Innovations, Inc.; General Manager of Roxas Land Corporation; and Director of Ayala Land, Sales, Inc., Ayala Property Management Corporation, Makati Development Corporation and LPHI. Prior to joining ALI, she was Vice President and Marketing Director of San Miguel Brewing Philippines (1998-1999), Marketing Director of the San Miguel Food Group (1996-1997), VP and Division Head of J. Walter Thompson (1995).

**Rex Ma. A. Mendoza**, 43, Filipino, joined ALI in September 2005 as Head of the Corporate Sales and Marketing Group and a Member of the Management Committee, with the rank of Senior Vice President. In concurrent capacity, he is appointed President of Ayala Land International Sales, Inc. Prior to joining ALI, he was Executive Vice President and Chief Marketing Officer of Philam Life, Inc., a member of the Philam Group of Companies. He specialized in Financial Services at the Life Management Institute in Georgia, U.S.A. He graduated with a degree in BS Business Administration, major in Marketing and Finance and earned his master's degree in Business Management from the Asian Institute of Management.

**Jaime E. Ysmael***,* 45, Filipino, is Senior Vice-President, Chief Finance Officer and member of the Management Committee of Ayala Land. Concurrently, he is a Managing Director of Ayala Corporation and Chief Operating Officer of Ayala Hotels, Inc. His other significant positions include: Director and President of First Communities Realty, Inc.; Director and Treasurer of Alinet.com, Cebu Insular Hotel Co., Inc., Community Innovations, Inc., Enjay Hotels, Inc., Laguna Technopark, Inc. and Makati Property Ventures, Inc.; Treasurer of Ayala Infrastructure; Director of Aurora Properties, Inc., Alabang Commercial Corp., Laguna Phenix Structures Corp., Makati Theatres, Inc., North Triangle Depot Commercial Corp., Station Square East Commercial Corp., and Vesta Properties Holdings, Inc.; and Chief Finance Officer of Roxas Land Corp. He graduated Summa Cum Laude at the University of the East with a degree of Bachelor of Science and Business Administration, major in Accounting. He holds an M.B.A. degree (Major in Finance) at the Wharton School and an M.A. degree in International Studies at the School of Arts and Sciences of the University of Pennsylvania under the Joseph H. Lauder Institute of Management and International Studies.

**Bernard Vincent O. Dy,** 42, American, is Vice President & member of the Management Committee of Ayala Land, Inc. effective January 1, 2005. His other significant positions include: Director of Fort Bonifacio Development Corp. and Director of Lagoon Development Corporation, and President of Community Innovations, Inc. He graduated with a degree of Bachelor of Science in Business Administration from the University of Notre Dame and took up his MBA and Masters in International Relations at the University of Chicago.

**Ma. Victoria E. Añonuevo,** 55, Filipino, is Vice-President and Member of the Management Committee of Ayala Land. Her other significant positions include: Member of Board of Trustee of Makati Parking Authority, Inc. (MAPA) and Madrigal Business Park Commercial Estate Association, Inc.; Member of Board of Governors of Makati Commercial Estate Association, Inc. (MACEA); Director of Tower One & Exchange Plaza Condominium Corporation; President of Laguna Technopark, Inc. She graduated with a degree of BSBA Marketing and took up her Masters in Business Administration from the University of the Philippines.

**Rene D. Almendras***,* 45*,* Filipino, is Vice-President assigned to the Vis-Min group and a member of the Management Committee of Ayala Land, Inc. His other significant positions included: Director, President & CEO of Cebu Holdings, Inc. and Cebu Property Ventures and Development Corporation. He graduated with a degree of Bachelor of Science in Business Management from the Ateneo de Manila University and took up the Strategic Business Economics Program, an academic requirement for Masters in Business Economics, from the University of Asia & the Pacific.

**Emilio J. Tumbocon,** 49, Filipino, is Vice-President, member of the Management Committee and Head of the Construction Group of ALI and concurrently, serves as President & Member of the Board of Directors of Makati Development Corporation, a wholly owned construction subsidiary of ALI. His other significant positions are: President of the Philippine Constructors Association (PCA), Member of the Board of Directors of the International Federation of Asia & Western Pacific Contractors' Associations (IFAWPCA), Construction Safety Foundation, Inc., Construction Industry Authority of the Philippines (CIAP) of the Department of Trade & Industry of the Philippines and Iraq Reconstruction Task Force of the Office of the President of the Philippines He is also a member of the Philippine Institute of Civil Engineers, Inc. He graduated at the University of the Philippines with a degree of Bachelor of Science in Civil Engineering in 1979 and earned his Masters in Business Administration in 1985 at the same university. He also took the 1987 Construction Executive Program at Stanford University, Palo Alto, California, U.S.A., the Senior Business Executive Program in 1992 at the University of Asia and the Pacific, and The Executive Program in 1997 at Darden Graduate School of Business Administration, University of Virginia, Charlottesville, Virginia, U.S.A.

**Ma. Cynthia H. Poblador,** 54, Filipino, joined ALI in 1991. Prior to her resignation, she held the positions of Vice-President, member of the Management Committee and Head of the Legal Division of ALI. She graduated Cum Laude from the University of the Philippines (UP) with a degree of Bachelor of Arts in Political Science in 1974. In 1978, she graduated Cum Laude from the UP College of Law.

**Raul M. Irlanda,** 50, Filipino, is Vice-President, member of the Management Committee and Bidding Committee of Ayala Land. He is also President and board member of Ayala Property Management Corporation. He is the first and only Filipino Certified Facility Manager (CFM) by the International Facility Management Association (IFMA). He is also Governor of Ayala Center Association, Group Head of Ayala Security Force, Director and Vice-President of Tower One Condominium Corporation, and Board Adviser of the College of Technology Management at University of Makati. He graduated with a degree of Bachelor of Science in Management/Finance from San Sebastian College and obtained his Master of Business Administration major in Financial Management from De La Salle University.

**Dinna G. Bayangos**, 41, Filipino, is Vice President and member of the Management Committee of ALI effective January 1, 2005. She is also the President of LPHI Her other significant positions include: Director of Community Innovations, Inc., Makati Development Corp. and Cebu Holdings, Inc. Before she became President of LPHI, she was an Assistant Vice President and Head of the Corporate Planning Division and a Senior Division Manager at the Residential Buildings Group of ALI. She graduated with a degree of A.B. Major in Economics and B.S.C. Major in Management of Financial Institutions (Cum Laude) at De La Salle University and took her Masteral in Business Management at the Asian Institute of Management and an Advanced Management Program at Wharton School of Business.

**Augusto D. Bengzon**, 42, Filipino, joined ALI in December 2004 as Vice President and Treasurer of ALI. His other significant positions include: Treasurer of LPHI, Makati Development Corp., Aurora Properties, Inc., Vesta Properties Holdings, Inc., and CECI Realty, Inc. Prior to joining ALI, he was Vice President and Credit Officer in Global Relationship Banking at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Portfolio Management, Structuring, Debt Syndication and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted a full scholarship by the Asian Institute of Management where he received his Masters in

Business Management degree.

*Family Relationships*

The Chairman of Ayala Land's Board of Directors, Fernando Zobel de Ayala, and its Vice Chairman, Jaime Augusto Zobel de Ayala II, are brothers.

*Involvement in Certain Legal Proceedings*

To the best of the knowledge of Ayala Land, during the past five years until the date of this Prospectus, none of its directors or executive officers are or were involved in any material legal proceedings nor are or were involved in any bankruptcy in any business in which such director or executive officer was a general partner or executive officer, is or has been convicted by final judgment in a criminal proceeding, is subject to an order or judgment limiting their involvement in any type of business, securities, commodities or banking activities, was found by a competent body to have violated a securities law or was involved in any event that is material to an evaluation of the ability or integrity of such director or executive officer.

*Significant Employees*

Ayala Land values its human resources. It expects each employee to do his share in achieving the Corporation's set goals.

# EXECUTIVE COMPENSATION

*Directors*

Article IV Section 17 of the Company's By-Laws provides: "Each member of the Board of Directors who is neither an officer nor consultant of the Corporation shall be entitled to receive a reasonable per diem in an amount to be determined by the Board of Directors for his attendance in Board meetings. Any additional compensation, other than per diems, to be given to members of the Board of Directors shall be subject to stockholders' approval."

During the 2003 Annual Stockholders' Meeting, the stockholders ratified the resolution fixing the remuneration of non-executive directors at ₱1,000,000 consisting of the following components:

| | |
|---|---|
| Retainer Fee: | ₱500,000 |
| Per diem per Board meeting attended: | ₱100,000 |

In addition, a non-executive director is entitled to a per diem of P20,000 per board committee meeting actually attended.

*Officers*

The Company adopts a performance-based compensation scheme as incentive. Total compensation paid to all senior personnel (i.e., managerial positions with rank of Manager and higher) amounted to P352.79 million in 2003 and P437.74 million in 2004. The projected total annual compensation for the current year is P481.51 million.

The total annual compensation of the top 11 officers of the Company amounted to P91.4 million in 2003 and P92.12 million for 2004. The projected total annual compensation for the current year is P101.33 million. The total annual compensation paid to all senior personnel was in cash. The total annual compensation includes the basic salary and other variable pay (e.g., performance bonus and other taxable income).

| **Name** | **Principal Position** | **2005 *** | | **2004** | | **2003** | |
|---|---|---|---|---|---|---|---|
| | | **Basic Pay** | **Other Variable Pay** | **Basic Pay** | **Other Variable Pay** | **Basic Pay** | **Other Variable Pay** |
| Jaime I. Ayala | President | | | | | | |
| Vincent Y. Tan | EVP | | | | | | |
| Tristan B. dela Rosa | SVP | | | | | | |
| Miriam O. Katigbak | SVP | | | | | | |
| Jaime E. Ysmael | SVP | | | | | | |
| Angela DV. Lacson | SVP | | | | | | |
| Jose Rene D. Almendras | VP | | | | | | |
| Ma. Victoria E. Añonuevo | VP | | | | | | |
| Emilio J. Tumbocon | VP | | | | | | |
| Raul M. Irlanda | VP | | | | | | |
| Ma. Cynthia H. Poblador | VP | | | | | | |
| Above-named officers as a group | | P95.55 | P5.78 | P86.86 | P5.26 | P85.99 | P5.41 |

*Note: Figures in Php Millions*
** Projected Annual Compensation*

| Name | 2005 * | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Basic Pay** | **Other Variable Pay** | **Basic Pay** | **Other Variable Pay** | **Basic Pay** | **Other Variable Pay** |
| All Officers** as a Group | P461.9 | P19.61 | P419.91 | P17.83 | P332.87 | P19.92 |

* *Projected Annual Compensation*
** *Managers and up*

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

**Stock Option Plans**

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 2.5% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The qualified officers and employees may exercise in whole or in part his vested option in accordance with the vesting percentage and vesting schedule stated in the plan. Also, to exercise the vested option, the officers and employees are required to continue employment with the Company or any of its subsidiaries for the 10-year option period. In case the officer resigns, he is given 90 days to exercise his vested options and, if the officer retires, he is given 3 years to exercise his vested and unvested options. In case the employee resigns and has met the 5-year holding period, he is given an option to fully pay the remaining unpaid balance of the subscribed shares or terminate in full the subscribed shares. If the 5-year holding period is not met, the subscribed shares will be cancelled and all payments made by the employee will be refunded to him. Stock dividends accruing from the original subscribed shares, if any, will be given to the employee.

Subscriptions receivable from the stock option plans are presented in the statements of changes in stockholders' equity.

In November 2001, the Company offered all its ESOWN subscribers with outstanding subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

Movements in the number of stock options outstanding are as follows:

| | ESOP | | ESOWN | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| At January 1 | **116,756,618** | 100,680,653 | **2,141,100** | 2,141,100 |
| Granted | **30,501,923** | 37,592,500 | **–** | – |
| Exercised | **(39,680,027)** | (21,402,256) | **–** | – |
| Cancelled | **-** | (114,279) | **–** | – |
| At December 31 | **107,578,514** | 116,756,618 | **2,141,100** | 2,141,100 |

The options that have been exercised had a weighted average exercise price of ₽4.48 or about ₽173.3 million in 2004 and P4.17 or about P88.6 million in 2003. The average fair market value of the shares as of exercise date was ₽6.50 or about ₽256.4 million in 2004 and ₽6.36 or about ₽135.5 million in 2003.

Outstanding options for the executives and key officers have the following terms:

| Exercise Dates | Number of Options |
|---|---|
| 2002 to 2011 | 8,109,559 |
| 2003 to 2012 | 17,511,871 |
| 2004 to 2013 | 25,945,821 |
| 2005 to 2014 | 29,241,577 |
| 2006 to 2015 | 17,619,109 |
| 2007 to 2016 | 9,150,577 |
| | 107,578,514 |

Of the directors and key officers, there were 11.7 million common shares exercised for the period January 1, 2005 to September 30, 2005 by the following directors/officers to wit:

| Name | No. of Shares | Date of Grant | Exercise Price | Market Price at Date of Grant |
|---|---|---|---|---|
| Bernard Vincent O. Dy | | Various | Various | Various |
| Raul M. Irlanda | | Various | Various | Various |
| Miriam O. Katigbak | | Various | Various | Various |
| Vincent Y. Tan | | Various | Various | Various |
| | 11,749,531 | | 4.65* | 5.66* |

* Average prices on the dates of grant.

# SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN RECORD AND BENEFICIAL OWNERS

## Security Ownership of Management

As of September 30, 2005, common shares in the capital stock of Ayala Land owned by all of its directors and executive officers are set out below:

| Type of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | | Citizenship | Percent of Class |
|---|---|---|---|---|---|
| *Directors* | | | | | |
| Common | Fernando Zobel de Ayala | 559,400 | (direct & indirect) | Filipino | 0.00518% |
| Common | Jaime Augusto Zobel de Ayala II | 10,000 | (direct) | Filipino | 0.00009% |
| Common | Jaime I. Ayala | 1 | (direct) | Filipino | 0.00000% |
| Common | Mercedita S. Nolledo | 51,753 | (direct) | Filipino | 0.00048% |
| Common | Nieves R. Confesor | 1 | (direct) | Filipino | 0.00000% |
| Common | Ramon R. del Rosario, Jr. | 1 | (direct) | Filipino | 0.00000% |
| Common | Delfin L. Lazaro | 1 | (direct) | Filipino | 0.00000% |
| Common | Leandro Y. Locsin, Jr. | 1,422,885 | (direct) | Filipino | 0.01319% |
| Common | Aurelio R. Montinola III | 2,982 | (direct & indirect) | Filipino | 0.00003% |
| *CEO and Ten Most Highly Compensated Officers* | | | | | |
| Common | Jaime I. Ayala | 1 | (direct) | Filipino | 0.00000% |
| Common | Vincent Y. Tan | 3,758,419 | (direct) | Filipino | 0.03484% |
| Common | Miriam O. Katigbak | 153,672 | (direct) | Filipino | 0.00142% |
| Common | Jaime E. Ysmael | 339,513 | (direct & indirect) | Filipino | 0.00315% |
| Common | Angela dV. Lacson | 102,935 | (direct) | Filipino | 0.00095% |
| Common | John Philip S. Orbeta | 0 | | Filipino | n/a |
| Common | Jose Rene D. Almendras | 0 | | Filipino | n/a |
| Common | Ma. Victoria E. Añonuevo | 616,333 | (direct & indirect) | Filipino | 0.00571% |
| Common | Emilio J. Tumbocon | 219,799 | (direct) | Filipino | 0.00204% |
| Common | Raul M. Irlanda | 150 | (direct) | Filipino | 0.00000% |
| Common | Ma. Cynthia H. Poblador | 54,783 | (direct) | Filipino | 0.00051% |
| *Other Executive Officers* | | | | | |
| Common | Dinna G. Bayangos | 0 | | Filipino | n/a |
| Common | Augusto D. Bengzon | 0 | | Filipino | n/a |
| Common | Bernard Vincent O. Dy | 0 | | American | n/a |
| **All Directors and Officers as a group** | | **7,292,628** | | | **0.06759%** |

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

## Security Ownership of Certain Record and Beneficial Owners

As of September 30, 2005, Ayala Land knows of no stockholder that beneficially owns in excess of 5% of its common stock except the following:

| Type of Class | Name, address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent of Class |
|---|---|---|---|---|---|
| Common | Ayala Corporation[1]<br>34/F Tower One Bldg.<br>Ayala Ave., Makati City | Ayala Corporation[1] | Filipino | *6,695,182,595 | 62.056% |
| Common | PCD Nominee Corporation (Non-Filipino)[2]<br>G/F MSE Bldg.<br>Ayala Ave., Makati City | Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[3] | Various | 2.958.162.031 | 27.418% |
| Common | PCD Nominee Corporation (Filipino)[4]<br>G/F MSE Bldg.<br>Ayala Ave., Makati City | Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[4] | Filipino | **726,868,468 | 6.737% |

*includes Ayala Corporation's shares held under PCD Nominee Corporation (Filipino)

** excludes Ayala Corporation's shares

[1] The Co-Vice Chairman of Ayala Corporation, Fernando Zobel de Ayala, is the Chairman of the Board of the Company.
[2] The Board of Directors of Ayala Corporation has the power to decide how AC shares in Ayala Land are to be voted.
[3] The PCD is not related to the Company.
[4] HSBC and SCB are participants of PCD. The 1,951,345,514 and 665,054,933 shares beneficially owned by HSBC and SCB, respectively, form part of the 3,685,030,499 shares registered in the name of PCD Non-Filipino and Filipino. The clients of HSBC and SCB have the power to decide how the Company's shares are to be voted.

### Voting Trust Holders of 5% or More

Ayala Land knows of no persons holding more than 5% of its common shares under a voting trust or similar agreement.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Ayala Land and certain number of its subsidiaries, associates and affiliates currently have contractual arrangements with each other. The following table sets out the principal ongoing related party transactions within its subsidiaries and affiliates:

| | Related party transactions |
|---|---|
| Fort Bonifacio Dev't. Corp. | • Pays management, marketing, and administration fees to ALI for the management and operational support and services for sale of FBDC's land and condominium units and operation of its commercial center, namely Stopover and The Fort. Pays management fee to Ayala Property Management (APMC), a wholly owned subsidiary of ALI, for the management of the facilities of its commercial centers.<br>• Pays interest to ALI for advances received |
| Cebu Holdings, Inc. (CHI) | • Pays management fee to ALI based on a percentage of gross revenues for the management and operations of Ayala Center Cebu. |
| Alabang Commercial Corp. (ACC) | • Pays management fee to ALI based on a variable percentage of net revenues for the management and operations of Alabang Town Center. |
| Lagoon Development Corp. | • Pays management fee to ALI based on a percentage of gross revenues for the management and operations of Pavilion Mall Laguna. |
| Bank of Philippine Islands (BPI) | • Pays management fee to APMC for the management of carpark at BPI Buendia Center. |
| Ayala Corporation (AC)/ Ayala Foundation | • AC pays management fee to APMC for technical consultancy while Ayala Foundation pays management fee to APMC for technical supervision of the Filipinas Heritage Library. |
| Bonifacio Land Corp. (BLC) | • Pays interest to ALI for advances received |
| Cebu Property Ventures Devt. Corp. | • Pays development cost to Makati Development Corporation (MDC), a wholly owned subsidiary of ALI, for land development of Cebu Civic and Trade Center |

| | |
|---|---|
| GMCR, Inc. | • Pays development cost to MDC for construction of Globe Telecom Building in Cebu. |

Specific details of these transactions are set forth below:

- FBDC has an existing management contract with ALI as project and development manager of their land and condominium units as well as their commercial centers. Total management fees for the year ended December 31, 2004 amounted to P167 million. Related receivable amounted to P173 million as of December 31, 2004.

- FBDC pays interest in return for the advances made by ALI to fund the completion of the Bonifacio Ridge project while BLC pays interest for the advances made by ALI to finance the costs to be incurred in relation to its restructuring program. The notes and advances bear interest at the rate of 12% to 14% per annum. Total interest income amounted to P71 million for the year ended December 31, 2004. Related receivable from BLC amounted to P639 million as of December 31, 2004.

- ACC and CHI have existing management contracts with ALI for the management and operation of Alabang Town Center and Ayala Center Cebu, respectively, which involve other functions and activities necessary and proper in order to maintain the centers as first class shopping centers. Total management fees from ACC amounted to P18 million for the year ended December 31, 2004. On the other hand, management fees from CHI reached P21 million for the year ended December 31, 2004. Related receivable from ACC and CHI as of December 31, 2004 amounted to P11 million and P94 million, respectively.

- Lagoon Development Corporation pays management fee to ALI for the management and operation of Pavilion Mall Laguna and for the year ended December 31, 2004, total management fee amounted to P8 million.

- Bank of the Philippine Islands pays management fees to APMC, for the management of the carpark at BPI Buendia Center. Total management fees amounted to P8 million for the year ended December 31, 2004.

- Ayala Corporation pays management fees to APMC for technical consultancy, while Ayala Foundation pays management fee for technical supervision of Filipinas Heritage Library. Total management fees for the year ended December 31, 2004 amounted to P2 million and P0.4 million, respectively.

- Revenues derived by MDC, a wholly owned subsidiary of ALI from land development of Cebu Civic and Trade Center under CPVDC amounted to ₱0.2 million in 2004 while revenues from construction of Globe Telecom Building in Cebu amounted to ₱0.2 million in 2004.

# DESCRIPTION OF CERTAIN OTHER DEBT

Securities in the form of ₱2.0 billion worth of short term commercial paper were registered with the SEC and issued in 2004, and ₱3.0 billion bonds and ₱2.0 billion bonds were registered with the SEC and issued by Ayala Land in 2002 and 2003, respectively. As of September 30, 2005, Ayala Land had the equivalent of ₱10.9 billion of outstanding debt, of which ₱3.8 billion is secured. Of Ayala Land's outstanding unsecured debt, ₱1.2 billion is evidenced by a debt instrument that was acknowledged by both the creditor and Ayala Land before a notary public. Under Philippine law, in the event that a borrower submits to insolvency or liquidation proceedings in which the borrower's assets are liquidated, unsecured debt evidenced by a debt instrument that has been acknowledged by the creditor and the borrower before a notary public enjoys a preference over unsecured debt that has not been so notarized. See discussion under Clause 5 of "Risk Factors and Other Information" on page 18 of this Prospectus.

For purposes of determining total debt amounts, Ayala Land has converted US$ denominated debt into Pesos using the Exchange Rate on September 30, 2005 which was US$1.00=₱55.977. The following table sets forth the outstanding long and short-term debt of Ayala Land and its subsidiaries as of September 30, 2005.

**Short Term Indebtedness in millions of Pesos:***

| Borrower | Amount |
|---|---|
| Ayala Land | 400 |
| Aurora Properties, Inc. | 44 |
| Ayala Greenfield Development Corp. | 253 |
| Community Innovations, Inc. | 0 |
| Leisure and Allied Industries, Phils., Inc. | 190 |
| Laguna Properties Holdings, Inc. | 525 |
| Roxas Land Corporation | 0 |
| **Totals** | 1,412 |

**Long Term Indebtedness in millions:***

| | Current | | Non Current | | Total | |
|---|---|---|---|---|---|---|
| **Borrower** | **Peso (*)** | **US $** | **Peso (*)** | **US $** | **Peso (*)** | **US Dollar** |
| Ayala Land | 166.7 | | 5,991.7 | | 6,158.3 | |
| Ayala Greenfield Development Corp. | 51.7 | | 77.5 | | 129.2 | |
| Cebu Insular Hotel Company, Inc. | 47.9 | | 101.7 | | 149.7 | |
| Laguna Properties Holdings, Inc. | 243.6 | | 381.4 | | 625.0 | |
| Station Square East Commercial Corp. | 135.0 | | 1,835.0 | | 1,970.0 | |
| Makati Property Ventures, Inc. | 160.1 | $ 2.9 | 319.1 | $ 5.7 | 479.2 | $ 8.6 |
| Totals | 805.0 | $ 3.5 | 8,706.4 | $ 5.7 | 9,511.3 | $ 8.6 |

- Should be read together with SEC Form 17-Q which will be subsequently submitted by the Issuer from time to time.

  Peso Equivalent of U.S. dollar loans, when applicable, using average exchange rate at the Philippine Dealing System of P55.977 to US$1.00 on September 30, 2005.

# CORPORATE GOVERNANCE

Ayala Land has always been committed to strong and transparent corporate governance, going well beyond mere compliance with the code mandated by law. Ayala Land made several important improvements to its governance in 2004, focusing on increasing the involvement of various governance bodies, strengthening performance management, and ensuring compliance with International Accounting Standards (IAS). Ayala Land believes that these changes will streamline its existing business models, improve execution, reduce risks, and better safeguard the collective and individual interests of its diverse set of shareholders.

The evaluation system established by the Company to measure the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance will be accomplished before the end of 2005.

To ensure adherence to the adopted corporate principles and best practices, the Chairman of the Board designated a Compliance Officer who shall perform the following duties:

- Operationalize the Company's Manual of Corporate Governance (the "Manual"), and monitor compliance with the provisions and requirements of the Manual.

- Issue a certification every January 30th of the year on the extent of the Corporation's compliance with the Manual for the completed year, explaining the reason/s of the latter's deviation from the same.

- Provide the SEC at the end of every fiscal year with a sworn certification that the requirement for independent directors and their attendance at meetings in accordance with Section II (7) of SEC Circular 2 has been complied with.

- Identify, monitor and control compliance risks.

- Determine violations of the Manual and create a system for according due notice, hearing, and due process for dealing with violations of the Manual.

- Recommend the penalties for violations of the Manual for further review and approval of Ayala Land's Board of Directors.

Also, in order to assess the level of compliance with the leading practices and principles on good corporate governance, the Company submitted with the SEC its duly accomplished Corporate Governance Self-Rating Form (CG-SRF) on July 17, 2003.

Any violation of the Manual shall include a disclosure of the name/s and position/s of the person/s involved, and sanction/s imposed on said individual/s.

Ayala Land seeks to promote and enhance compliance of good corporate governance. Ayala Land is requiring observance of good corporate governance of all its subsidiaries, including those that are not listed on the PSE and not covered by the SEC Code of Corporate Governance.

# FINANCIAL INFORMATION

The following pages set forth Ayala Land's audited consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 and unaudited consolidated financial statements as of September 30, 2005.

## *AYALA LAND, INC. AND SUBSIDIARIES*
## *CONSOLIDATED BALANCE SHEETS*
## *As of September 30, 2005 and December 31, 2004*

| | UNAUDITED SEPT. 2005 | AUDITED DEC. 2004 |
|---|---|---|
| (in million pesos) | | |
| **A S S E T S** | | |
| **Current Assets** | | |
| Cash and cash equivalent | 7,957 | 6,360 |
| Accounts and Notes Receivable - net | 7,416 | 7,451 |
| Subdivision land for sale | 3,334 | 3,103 |
| Condominium and Residential units for sale | 4,000 | 2,900 |
| Deferred tax and other current assets | 1,649 | 1,045 |
| Total Current Assets | 24,356 | 20,859 |
| **Non-current Accounts and Notes Receivable** | 5,381 | 6,445 |
| **Land & Improvements** | 16,803 | 17,309 |
| **Investments** | 25,362 | 26,625 |
| **Property and Equipment -net** | 1,274 | 1,501 |
| **Other Assets** | 1,941 | 1,290 |
| | **75,117** | **74,029** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | 8,772 | 5,739 |
| Loans payable | 1,412 | 1,937 |
| Income tax payable | 185 | 166 |
| Current portion of : | | |
| Long-term debt | 805 | 1,111 |
| Estimated Liability for Land & Property Development | 2,589 | 3,043 |
| Other current liabilities | 634 | 194 |
| Total Current Liabilities | 14,397 | 12,190 |
| **Long-term debt - net of current portion** | 8,706 | 10,389 |
| **Non-current Liabilities and Deposits** | 4,737 | 4,390 |
| **Estimated Liability for Land and Property Development** | 2,551 | 2,225 |
| **Minority Interest** | 6,913 | 6,776 |
| **Stockholders' Equity** | 37,813 | 38,059 |
| | **75,117** | **74,029** |

*AYALA LAND, INC. AND SUBSIDIARIES*
*CONSOLIDATED STATEMENTS OF INCOME*
*AND UNAPPROPRIATED RETAINED EARNINGS*
***For the Three Months and Nine Months Ended September 30, 2005 and 2004***

| | 2005 Unaudited | | 2004 Unaudited | |
|---|---|---|---|---|
| | July 1 to September 30 | January 1 to September 30 | July 1 to September 30 | January 1 to September 30 |
| **(in million pesos)** | | | | |
| **REVENUES** | | | | |
| Real estate | 4,375 | 12,974 | 3,750 | 11,237 |
| Interest and Other Income | 319 | 3,482 | 375 | 939 |
| | 4,694 | 16,456 | 4,125 | 12,176 |
| **COSTS AND EXPENSES** | | | | |
| Real estate | 2,837 | 8,440 | 2,360 | 7,250 |
| General and administrative expenses | 416 | 1,562 | 502 | 1,317 |
| Interest and other charges | 354 | 3,060 | 251 | 970 |
| Provision for income tax | 183 | 532 | 317 | 879 |
| | 3,790 | 13,594 | 3,430 | 10,416 |
| **INCOME BEFORE NET EARNINGS APPLICABLE TO MINORITY INTEREST** | 904 | 2,862 | 695 | 1,760 |
| **NET EARNINGS APLLICABLE TO MINORITY INTEREST** | 114 | 271 | 29 | (14) |
| **NET INCOME** | 790 | 2,591 | 666 | 1,774 |
| **UNAPPROPRIATED RETAINED EARNINGS BEG, as previously stated** | 16,228 | 17,357 | 15,873 | 14,995 |
| Effect of changes in accounting for: | | | | |
| PFRS 2 - Share options granted in prior years | | (291) | | (252) |
| PFRS 3 - Cessation of amortization of negative goodwill | | 717 | | 713 |
| PAS 19 - Unfunded defined benefit obligations | | (406) | | (341) |
| PAS 21 - Elimination of capitalization of forex losses | | (37) | | (28) |
| **UNAPPROPRIATED RETAINED EARNINGS BEG, as restated** | 16,228 | 17,340 | 15,873 | 15,087 |
| Cash Dividend (P0.27 per share in 2005 and P0.03 per share in 2004) | | (2,913) | | (322) |
| **UNAPPROPRIATED RETAINED EARNINGS, ENDING** | 17,018 | 17,018 | 16,539 | 16,539 |
| **EARNINGS PER SHARE *** | | 0.24 | | 0.16 |

** Based on 10,788,953,835 and 10,769,300,909 weighted average number of shares as of September 30, 2005 and 2004 respectively.*

*AYALA LAND, INC. AND SUBSIDIARIES*
*CONSOLIDATED STATEMENTS OF CHANGES*
*IN STOCKHOLDERS' EQUITY*
*For the Nine Months Ended September 30, 2005 and 2004*

| | UNAUDITED | |
|---|---|---|
| | January 1 to September 30 | |
| | 2005 | 2004 |
| (in million pesos) | | |
| **CAPITAL STOCK - P1 par value** | | |
| **Issued** | | |
| Balance at beginning of year | 10,774 | 10,761 |
| Stock options exercised | 14 | 7 |
| Balance at end of the period | 10,788 | 10,768 |
| **Subscribed** | | |
| Balance at beginning of year | 1 | 2 |
| Stock options exercised | 0 | 0 |
| Balance at end of the period | 1 | 2 |
| **STOCK OPTION OUTSTANDING** | | |
| Stock options exercised | 307 | 0 |
| Balance at end of the period | 307 | 0 |
| **ADDITIONAL PAID-IN CAPITAL** | | |
| Balance at beginning of year | 3,598 | 3,526 |
| Stock options exercised -net | 105 | 35 |
| Balance at end of the period | 3,703 | 3,561 |
| **SUBSCRIPTIONS RECEIVABLE** | | |
| Balance at beginning of year | (5) | (10) |
| Stock options exercised - net | 2 | 4 |
| Balance at the end of the period | (3) | (6) |
| | **14,796** | **14,325** |
| **RETAINED EARNINGS** | | |
| Appropriated for future expansion | 6,000 | 6,000 |
| Unappropriated: | | |
| Balance at beginning of year | 17,357 | 14,995 |
| Effect of changes in accounting for: | | |
| PFRS 2- Share options granted in prior years | (291) | (252) |
| PFRS 3- Cessation of amortization of negative goodwill | 717 | 713 |
| PAS 19- Unfunded defined benefit obligations | (406) | (341) |
| PAS 21- Elimination of capitalization of FOREX losses | (37) | (28) |
| Balance at beginning of year, as restated | 17,340 | 15,087 |
| Cash dividends | (2,913) | (322) |
| Net income, as restated | 2,591 | 1,774 |
| Balance at end of the period | 17,018 | 16,539 |
| | **23,018** | **22,539** |
| **TREASURY STOCK** | | |
| Balance at beginning of year | (1) | (1) |
| Shares repurchased | | |
| Balance at end of year | (1) | (1) |
| | **37,813** | **36,863** |

***AYALA LAND, INC. AND SUBSIDIARIES***
***CONSOLIDATED STATEMENTS OF CASH FLOWS***
***For the Nine Months Ended September 30, 2005 and 2004***

| | UNAUDITED | |
|---|---|---|
| | **January 1 to September 30** | |
| | **2005** | **2004** |
| (in million pesos) | | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net Income | 2,591 | 1,774 |
| Adj.to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 745 | 673 |
| Provision for doubtful accounts | 0 | 14 |
| Provision for decline in value of assets/ asset write off | 1,857 | 0 |
| Net earnings applicable to minority interest | 271 | (14) |
| Equity in net earnings | (164) | (154) |
| Changes in operating assets and liabilities : | | |
| Decrease (increase) in : | | |
| Accounts and notes receivable - trade | 1,688 | (2,114) |
| Subdivision land for sale | (127) | (77) |
| Condominium and residential units for sale | (1,203) | 495 |
| Deferred tax and other current assets | (595) | (640) |
| Increase (decrease) in : | | |
| Accounts payable and accrued expenses | 1,525 | 1,408 |
| Other current liabilities | 459 | (181) |
| Estimated liability for land and property development | (128) | 1,137 |
| Net cash provided by operating activities | 6,919 | 2,321 |
| | | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Disposal of (addition to) : | | |
| Land and improvements | 288 | 662 |
| Investments | (399) | 145 |
| Property & equipment | (332) | (231) |
| Decrease (increase) in : | | |
| Accounts and notes receivable - non trade | (590) | (1,082) |
| Other assets | (660) | (323) |
| Net cash used in investing activities | (1,693) | (829) |
| | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Proceeds from (payment of) loans payable | 377 | 380 |
| Proceeds from (payment of) long term debt | (2,890) | (1,052) |
| Dividends paid | (1,404) | (644) |
| Increase (decrease) in : | | |
| Non- current liabilities and deposits | 282 | 248 |
| Minority interest | (129) | 93 |
| Additional issuance of capital stock | 135 | 125 |
| Net cash provided by (used in) financing activities | (3,629) | (850) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT** | 1,597 | 642 |
| **CASH AND CASH EQUIVALENT AT BEGINNING OF PERIOD** | 6,360 | 4,855 |
| **CASH AND CASH EQUIVALENT AT END OF PERIOD** | 7,957 | 5,497 |

# AYALA LAND, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2004 and 2003
and Years Ended December 31, 2004, 2003 and 2002

and

Report of Independent Auditors

SGV & Co

■ SyCip Gorres Velayo & Co.
6760 Ayala Avenue
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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

**Report of Independent Auditors**

The Stockholders and the Board of Directors
Ayala Land, Inc.
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying consolidated balance sheets of Ayala Land, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 1195834, January 3, 2005, Makati City

February 14, 2005

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SEC Accreditation No. 0012-F

**Report of Independent Auditors**
**On Supplementary Schedules**

Ayala Land, Inc.
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of Ayala Land, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated February 14, 2005. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rules 68 and 68.1 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 1195834, January 3, 2005, Makati City

February 14, 2005

## AYALA LAND, INC. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS
**(Amounts in Thousands)**

| | December 31 | |
|---|---|---|
| | **2004** | 2003 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 3) | **₱6,360,187** | ₱4,854,920 |
| Accounts and notes receivable - net (Notes 4 and 14) | **7,451,087** | 4,506,321 |
| Subdivision land for sale | **3,103,188** | 3,884,117 |
| Condominium and residential units for sale | **2,900,011** | 3,263,767 |
| Other current assets (Note 5) | **1,054,097** | 580,214 |
| Total Current Assets | **20,868,570** | 17,089,339 |
| **Noncurrent Assets** | | |
| Noncurrent accounts and notes receivable (Notes 4 and 14) | **6,444,706** | 5,458,708 |
| Land and improvements (Note 9) | **17,308,817** | 19,065,290 |
| Investments - net (Notes 6, 9, 11 and 22) | **25,935,443** | 22,712,299 |
| Property and equipment - net (Note 7) | **1,500,584** | 1,514,522 |
| Deferred tax assets (Note 13) | **649,478** | 656,824 |
| Other noncurrent assets | **641,007** | 515,070 |
| Total Noncurrent Assets | **52,480,035** | 49,922,713 |
| | **₱73,348,605** | ₱67,012,052 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Note 8) | **₱5,738,741** | ₱4,023,475 |
| Short-term debt (Note 9) | **1,936,750** | 1,457,000 |
| Income tax payable | **165,869** | 112,507 |
| Current portion of: | | |
| Long-term debt (Note 9) | **1,110,738** | 1,335,995 |
| Estimated liability for land and property development | **3,043,026** | 2,445,702 |
| Other current liabilities | **194,000** | 249,820 |
| Total Current Liabilities | **12,189,124** | 9,624,499 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Note 9) | **10,389,295** | 11,588,299 |
| Deferred tax liabilities (Note 13) | **930,559** | 784,052 |
| Noncurrent liabilities and deposits (Note 10) | **3,117,716** | 2,670,732 |
| Estimated liability for land and property development - net of current portion | **2,225,086** | 1,228,484 |
| Total Noncurrent Liabilities | **16,662,656** | 16,271,567 |
| Total Liabilities | **28,851,780** | 25,896,066 |
| **Minority Interest in Consolidated Subsidiaries** | **6,771,370** | 5,842,715 |
| **Stockholders' Equity** (Notes 11 and 17) | | |
| Paid-up capital | **14,368,670** | 14,278,780 |
| Retained Earnings | **23,357,342** | 20,995,048 |
| Treasury Stock | **(557)** | (557) |
| Total Stockholders' Equity | **37,725,455** | 35,273,271 |
| | **₱73,348,605** | ₱67,012,052 |

*See accompanying Notes to Consolidated Financial Statements.*

# AYALA LAND, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

**(Amounts in Thousands, Except Earnings Per Share)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2004** | 2003 | 2002 |
| **REVENUE** | | | |
| Real estate (Notes 14 and 21) | **₱14,494,506** | ₱11,602,680 | ₱9,860,057 |
| Hotel operations | **1,549,217** | 1,282,325 | 1,308,957 |
| Equity in net earnings of investees, interest, fees, investment and other income (Notes 6 and 14) | **2,083,068** | 1,738,927 | 1,045,119 |
| | **18,126,791** | 14,623,932 | 12,214,133 |
| **COSTS AND EXPENSES** | | | |
| Real estate (Notes 12 and 14) | **9,341,652** | 6,910,722 | 5,458,797 |
| Hotel operations (Note 12) | **1,153,949** | 1,068,433 | 1,080,195 |
| General and administrative expenses (Notes 12 and 14) | **2,100,207** | 1,540,510 | 1,313,540 |
| Interest and other charges (Notes 9 and 12) | **1,327,665** | 1,517,493 | 695,130 |
| Provision for income tax (Note 13) | **1,252,526** | 793,102 | 1,125,278 |
| | **15,175,999** | 11,830,260 | 9,672,940 |
| **INCOME BEFORE NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST** | **2,950,792** | 2,793,672 | 2,541,193 |
| **NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST** | **(57,680)** | 84,517 | 22,678 |
| **NET INCOME** | **₱3,008,472** | ₱2,709,155 | ₱2,518,515 |
| **Earnings Per Share** (Note 16) | | | |
| Basic | **₱0.28** | ₱0.25 | ₱0.24 |
| Diluted | **0.28** | 0.25 | 0.24 |

*See accompanying Notes to Consolidated Financial Statements.*

# AYALA LAND, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

**(Amounts in Thousands, Except Par Value and Cash Dividends Per Share)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2004** | 2003 | 2002 |
| **CAPITAL STOCK** - ₱1 par value (Note 11) | | | |
| Issued | | | |
| Balance at beginning of year | **₱10,760,802** | ₱10,691,879 | ₱10,691,832 |
| Issuance of shares | **–** | 63,375 | 47 |
| Stock options exercised | **13,387** | 5,548 | – |
| Balance at end of year | **10,774,189** | 10,760,802 | 10,691,879 |
| Subscribed (Notes 11 and 17) | | | |
| Balance at beginning of year | **1,728** | 1,842 | 1,499 |
| Issuance of shares | **(547)** | (114) | – |
| Stock options exercised | **–** | – | 343 |
| Balance at end of year | **1,181** | 1,728 | 1,842 |
| **ADDITIONAL PAID-IN CAPITAL** (Note 17) | | | |
| Balance at beginning of year | **3,526,221** | 3,018,990 | 3,013,769 |
| Issuance of shares | **–** | 468,975 | – |
| Stock options exercised | **71,598** | 38,256 | 5,221 |
| Balance at end of year | **3,597,819** | 3,526,221 | 3,018,990 |
| **SUBSCRIPTIONS RECEIVABLE** (Note 17) | | | |
| Balance at beginning of year | **(9,971)** | (16,587) | (22,266) |
| Collections | **5,452** | 6,616 | 5,679 |
| Balance at end of year | **(4,519)** | (9,971) | (16,587) |
| **TOTAL PAID-UP CAPITAL** | **14,368,670** | 14,278,780 | 13,696,124 |
| **RETAINED EARNINGS** (Note 11) | | | |
| Appropriated for future expansion | **6,000,000** | 6,000,000 | 6,000,000 |
| Unappropriated: | | | |
| Balance at beginning of year | **14,995,048** | 15,711,434 | 15,438,180 |
| Cash dividends - ₱0.06 per share in 2004, ₱0.32 per share in 2003 and ₱0.21 per share in 2002 | **(646,178)** | (3,425,541) | (2,245,261) |
| Net income | **3,008,472** | 2,709,155 | 2,518,515 |
| Balance at end of year | **17,357,342** | 14,995,048 | 15,711,434 |
| | **23,357,342** | 20,995,048 | 21,711,434 |
| **TREASURY STOCK** (Note 11) | **(557)** | (557) | (557) |
| | **₱37,725,455** | ₱35,273,271 | ₱35,407,001 |

*See accompanying Notes to Consolidated Financial Statements.*

## AYALA LAND, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2004** | 2003 | 2002 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax and net earnings (loss) applicable to minority interest | **₱4,203,318** | ₱3,586,774 | ₱3,666,471 |
| Adjustments for: | | | |
| Depreciation and amortization | **937,465** | 801,677 | 810,303 |
| Interest expense - net of amount capitalized | **916,987** | 878,939 | 685,085 |
| Provision for doubtful accounts | **25,370** | 12,210 | 37,003 |
| Dividends received from investee | **19,035** | 18,460 | 10,500 |
| Interest income | **(659,442)** | (535,830) | (696,926) |
| Equity in net earnings of investees | **(295,941)** | (128,417) | (37,195) |
| Gain on sale of investments | **(220,377)** | (552,582) | - |
| Operating income before changes in working capital | **4,926,415** | 4,081,231 | 4,475,241 |
| Decrease (increase) in: | | | |
| Accounts and notes receivable - trade | **(3,442,917)** | (1,302,371) | (1,788,714) |
| Subdivision land for sale | **725,698** | (104,447) | 406,244 |
| Condominium and residential units for sale | **736,937** | 229,843 | 1,728,329 |
| Other current assets | **(473,883)** | (98,737) | 99,992 |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | **1,723,122** | 243,016 | (1,067,411) |
| Other current liabilities | **(55,820)** | 25,559 | 64,309 |
| Estimated liability for land and property development | **1,593,926** | 1,514,998 | 656,338 |
| Cash generated from operations | **5,733,478** | 4,589,092 | 4,574,328 |
| Interest received | **426,141** | 349,674 | 390,461 |
| Income tax paid | **(1,045,311)** | (1,328,544) | (911,576) |
| Interest paid - net of amount capitalized | **(925,328)** | (893,205) | (643,763) |
| Net cash provided by operating activities | **4,188,980** | 2,717,017 | 3,409,450 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of investments | **1,340,031** | 289,899 | – |
| Proceeds from disposal of property and equipment | **28,489** | 69,599 | 36,541 |
| Additions to: | | | |
| Land and improvements | **(72,896)** | (148,891) | (23,179) |
| Investments | **(2,547,667)** | (3,466,896) | (2,121,065) |
| Property and equipment | **(329,228)** | (369,449) | (413,143) |
| Decrease (increase) in: | | | |
| Accounts and notes receivable - non-trade | **(153,021)** | (500,017) | 386,227 |
| Other noncurrent assets | **(279,916)** | 16,050 | 81,770 |
| Net cash used in investing activities | **(2,014,208)** | (4,109,705) | (2,052,849) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2004** | 2003 | 2002 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from short and long-term debt | **₱2,547,480** | ₱7,677,764 | ₱6,740,399 |
| Payment of short and long-term debt | **(3,491,991)** | (4,170,968) | (6,785,929) |
| Increase (decrease) in: | | | |
| Noncurrent liabilities and deposits | **446,984** | 318,780 | 21,854 |
| Minority interest in consolidated subsidiaries | **383,825** | 81,709 | (122,804) |
| Proceeds from issuance of capital stock | **89,890** | 50,306 | 11,289 |
| Dividends paid | **(645,693)** | (3,423,478) | (2,245,246) |
| Net cash provided by (used in) financing activities | **(669,505)** | 534,113 | (2,380,437) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **1,505,267** | (858,575) | (1,023,836) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **4,854,920** | 5,713,495 | 6,737,331 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱6,360,187** | ₱4,854,920 | ₱5,713,495 |

*See accompanying Notes to Consolidated Financial Statements.*

# AYALA LAND, INC. AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

Ayala Land, Inc. (the Company) is incorporated in the Republic of the Philippines. The Company's registered office and its principal place of business is at Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company's parent is Ayala Corporation (AC).

The Company is incorporated to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; to acquire, purchase, hold, manage, develop and sell subdivision lots, with or without buildings or improvements; to erect, construct, alter, manage, operate, lease, in whole or in part, buildings and tenements of the Company or of other persons; and to engage or act as real estate broker.

The number of employees of the Company and its subsidiaries averaged to 1,315 in 2004 and 1,488 in 2003.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries for the years ended December 31, 2004 and 2003 were authorized for issue by the Audit Committee and Board of Directors on February 14, 2005.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

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

Use of Estimates

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the Philippines which requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Adoption of New Accounting Standards
On January 1, 2004, the Company and its subsidiaries adopted the following Statements of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS):

- SFAS 12/IAS 12, *Income Taxes*, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred income taxes. The adoption of SFAS 12/IAS 12 resulted in the reclassification of the current deferred tax assets and liabilities to noncurrent deferred tax assets and liabilities, and in additional disclosures in the consolidated financial statements.

- SFAS 17/IAS 17, *Leases*, which prescribes the accounting policies and disclosures applicable to finance and operating leases. Adoption of this standard has no material effect on the consolidated financial statements. Additional disclosures were made in 2004.

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

The consolidated financial statements represent the consolidation of the financial statements of the Company and the following wholly owned and majority-owned subsidiaries:

| | **Effective Percentages of Ownership** | |
|---|---|---|
| | **2004** | 2003 |
| Real Estate: | | |
| Amorsedia Development Corporation and subsidiaries | **100%** | 100% |
| OLC Development Corporation | **100** | 100 |
| Ayala Greenfield Development Corporation (AGDC) | **50** | 50 |
| Ayala Land Sales, Inc. | **100** | 100 |
| Buendia Landholdings, Inc. | **100** | 100 |
| Community Innovations, Inc. | **100** | 100 |
| Crimson Field Enterprises, Inc. | **100** | 100 |
| Laguna Properties Holdings, Inc. and subsidiaries | **100** | 100 |
| Regent Time International, Limited (Regent) | **100** | 100 |
| Red Creek Properties, Inc. | **100** | 100 |
| Station Square East Commercial Corporation - formerly Liberty Real Holdings Corporation - (SSECC) | **72** | 80 |
| Aurora Properties Incorporated | **70** | 70 |
| Vesta Property Holdings, Inc. | **70** | 70 |
| Serendra, Inc. - formerly First South Properties, Inc. - (Serendra) | **67** | 100 |
| Ceci Realty, Inc. | **62** | 100 |
| Laguna Technopark, Inc. | **61** | 61 |
| CMPI Holdings, Inc. | **60** | 60 |
| ALI-CII Development Corporation (ALI-CII) | **50** | 50 |
| Roxas Land Corporation (RLC) | **50** | 50 |
| Construction: | | |
| Makati Development Corporation | **100** | 100 |

(Forward)

| | Effective Percentages of Ownership | |
|---|---|---|
| | **2004** | 2003 |
| Hotels: | | |
| Ayala Hotels, Inc. (AHI) and subsidiaries | **50%** | 50% |
| Property Management: | | |
| Ayala Property Management Corporation | **100** | 100 |
| Ayala Theatres Management, Inc. and subsidiaries | **100** | 100 |
| Entertainment: | | |
| Five Star Cinema, Inc. | **100** | 100 |
| Leisure and Allied Industries Philippines, Inc. (LAI) | **50** | 50 |
| Others: | | |
| ALInet.com, Inc. (ALInet) | **100** | 100 |
| Ayala Infrastructure Ventures, Inc. | **100** | 100 |
| Food Court Company, Inc. | **100** | 100 |

AC owns the other 50% of AHI and subsidiaries. The Company exercises control over AHI and subsidiaries. Likewise, the Company, through its 50% effective ownership and by virtue of a management contract or shareholders' agreement, exercises control over the operations and management of RLC, AGDC, ALI-CII and LAI. Accordingly, the accounts of AHI, RLC, AGDC, ALI-CII and LAI are consolidated with the accounts of the Company.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in consolidation.

Cash and Cash Equivalents

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

Trade Receivables

Trade receivables are recognized and carried at the original contract price or invoice amount less any unrealized gain, as applicable, and allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Subdivision Land for Sale and Condominium and Residential Units for Sale

Subdivision land for sale and condominium and residential units for sale are carried at the lower of cost or net realizable value (estimated selling price less cost to complete and sell). Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs.

Land and Improvements
Land and improvements are carried at the lower of aggregate cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs. The aggregate net realizable value on a per location basis is substantially in excess of costs.

Investments
Investments in associates and joint ventures are accounted for under the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is an entity, not being a subsidiary or an associate, in which the Company exercises joint control together with one or more other partners.

Investments in associates and joint ventures are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company and its subsidiaries' share in the net assets of the investees, less any impairment in value. The consolidated statements of income reflect the Company and its subsidiaries' share on the results of operations of these investees. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Company and its subsidiaries' interest thereon. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction in the carrying value of the investments.

The Company and its subsidiaries discontinue applying the equity method when their investments in associates are reduced to zero. Accordingly, additional losses are not recognized unless the Company and its subsidiaries have guaranteed certain obligations of the associate. When the associate subsequently reports net income, the Company and its subsidiaries will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The Company's investments in associates include goodwill on acquisition (net of accumulated amortization and any impairment in value). Goodwill represents the excess of the cost of acquisition over the fair value of identifiable net assets of the associate at the date of acquisition. Goodwill is amortized on a straight-line basis over a ten-year period. Goodwill is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company and Regent's acquisition of Bonifacio Land Corporation (BLC) shares (see Note 6) was accounted for using the purchase method. Negative goodwill representing the excess, as at the date of acquisition, of the Company and Regent's interest in the fair value of identifiable net assets of BLC over the cost of acquisition is amortized to income as the underlying lots are sold.

Investments in shares of stock in which the Company and certain subsidiaries do not exercise significant influence and investments in land are carried at cost less any substantial and presumably permanent decline in aggregate carrying value of the related investments.

Investments in real properties consisting of land improvements, buildings and hotel property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. All costs that are directly attributable to the construction of the building and hotel property and equipment are capitalized, including interest during construction period. Amortization and depreciation are computed on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of investments in land improvements, buildings and hotel property and equipment are as follows: land improvements - 5 years; buildings - 20 to 40 years; and, hotel property and equipment - 10 to 50 years.

The cost of significant additions, renewals and betterments are capitalized while minor expenditures for repairs and maintenance are directly charged to operations. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to operations.

Property and Equipment

Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements - 20 to 40 years; machinery and construction equipment - 5 years; furniture, fixtures and equipment - 3 to 10 years; and, transportation equipment - 3 to 5 years.

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the period of depreciation and amortization and methods are consistent with the expected pattern of economic benefits from items of property and equipment.

Impairment of Assets

An assessment is made at balance sheet date to determine whether there is any indication of impairment of any long-lived assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

<u>Provisions</u>
Provisions are recognized when the Company and subsidiaries have 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.

<u>Subsequent Events</u>
Post year-end events that provide additional information about the Company and subsidiaries' position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

<u>Contingencies</u>
Contingent liabilities are not recognized in the 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 financial statements but disclosed when an inflow of economic benefits is probable.

<u>Revenue and Cost Recognition</u>
Income from sales of substantially completed projects where collectibility of sales price is reasonably assured is accounted for using the full accrual method while income from sales of projects where collectibility of sales price is not reasonably assured is recognized using the installment method. Realized income on installment sales is computed based on collections multiplied by the gross profit rates of individual sales contracts. The percentage of completion method is used to recognize income from sales of projects where the Company and certain subsidiaries have material obligations under the sales contract to complete the project after the property is sold. Under this method, the gain on sale is recognized as the related obligations are fulfilled.

Cost of subdivision land sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the contractors and technical staff of the Company and certain subsidiaries. Cost of condominium and residential units sold before completion of the project is determined based on actual costs and project estimates of building contractors and technical staff. The estimated future expenditures for the development of the sold portion of the subdivision land and condominium and residential units are shown under the "Estimated Liability for Land and Property Development" account in the consolidated balance sheets with the portion expected to be incurred within the succeeding year presented as a current liability.

Revenue from construction contracts of a subsidiary are recognized using the percentage of completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income from investment properties is recognized in the statements of income either on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Revenue from hotel operations of a subsidiary are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Management fees from administrative, property management and other fees are recognized when earned.

Interest is recognized as it accrues.

Stock Option Plans

The Company has stock option plans for the granting of nontransferable options to key officers and employees, whereby they are granted an option to purchase a fixed number of shares of stock at a stated price during a specified period. Options exercised are recorded at the option price.

Retirement Costs

The Company and its subsidiaries determine their retirement costs using the projected unit credit method. The projected unit credit method sees each year of service as giving rise to an additional unit of pension entitlement and values each unit separately to build up a total retirement benefit obligation. Under this method, the annual normal cost for an equal unit of benefit increases each year because the period to the employee's retirement continually shortens, and the probability of reaching retirement increases. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected remaining working lives of the covered employees.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs (included in "Subdivision land for sale," "Condominium and residential units for sale," "Land and improvements" and "Investments" accounts in the consolidated balance sheets). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

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 the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at balance sheet dates. Exchange gains or losses arising from foreign exchange transactions are credited or charged to operations for the year.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

Segments

The Company and subsidiaries' 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. Financial information on business segments is presented in Note 18.

New Accounting Standards Effective in 2005

New accounting standards based on revised IAS and new International Financial Reporting Standards (IFRSs) referred to as Philippine Accounting Standards (PASs) and Philippine Financial Reporting Standards (PFRSs), respectively, will become effective in 2005.

The Company and its subsidiaries will adopt beginning January 1, 2005, the following new accounting standards that are relevant to the Company and its subsidiaries:

- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits, including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits. For post-employment benefits classified as defined benefit retirement plans, the standard will require the use of projected unit credit method in measuring the retirement benefit expense and will result in change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. The adoption of PAS 19 will result in recognition of the unfunded defined benefit obligation (see Note 15) which will increase the liabilities in the consolidated financial statements and will be charged against 2005 beginning retained earnings.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, will result in the elimination of the capitalization of foreign exchange losses. As of December 31, 2004, the Company's share in the undepreciated capitalized foreign exchange losses included in hotel property and equipment amount to ₱56.2 million. Upon adoption of PAS 21 in 2005, any undepreciated capitalized foreign exchange losses will be adjusted against beginning retained earnings and prior years' financial statements presented will be restated.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The Standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The Standard also requires financial instruments to be classified as either liabilities or equity in accordance with its substance and not its legal form. Disclosures required by PAS 32 will be included upon adoption in 2005.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring a Company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value. PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualify as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. A company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment. Certain procedures need to be further performed by management to assess the impact of PAS 39.

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

- PFRS 2, *Share-Based Payments*, sets out the measurement principles and accounting requirements for share-based payment transactions, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. Under this standard, the Company is required to recognize the cost of share options granted after November 7, 2002 in the statements of income. The Company currently does not recognize an expense from share options granted but discloses required information for such options.

Upon adoption of PFRS 2 in 2005, the estimated cost as of December 31, 2004 of share options issued to the employees will be adjusted against 2005 beginning retained earnings with a credit to additional paid in capital and prior years' consolidated financial statements presented will be restated.

- PFRS 3, *Business Combination*, which will result in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted. Upon adoption of PFRS 3 in 2005, goodwill on investments in shares will no longer be amortized, and the Company's share on the negative goodwill relating to the acquisition of BLC shares amounting to ₱693.3 million (see Note 6) will be adjusted against beginning retained earnings and prior years' consolidated financial statements will be restated.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the balance sheet and the results of discontinued operations to be presented separately in the statements of income. The adoption of PFRS 5 will not have an effect in the consolidated financial statements.

The Company and its subsidiaries will also adopt in 2005 the following revised standards*:*

- PAS 1 (revised 2003), *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the balance sheet and statement of income. The adoption of PAS 1 would result in additional disclosures and presentation changes in the consolidated financial statements.

- PAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error. The adoption of PAS 8 will not have a material effect on the consolidated financial statements.

- PAS 10 (revised 2003), *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date. The adoption of PAS 10 will not have a material effect on the consolidated financial statements.

- PAS 16 (revised 2003), *Property, Plant and Equipment*, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The adoption of PAS 16 will not have a material effect on the consolidated financial statements.

- PAS 17 (revised 2003), *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors. The adoption of PAS 17 will not have a material effect on the consolidated financial statements.

- PAS 24 (revised 2003), *Related Party Disclosures*, provides additional guidance and clarity in the scope of the Standard, the definitions and disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type. The adoption of PAS 24 will result in additional disclosures in the consolidated financial statements.

- PAS 27 (revised 2003), *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances. The adoption of PAS 27 will not have a material effect on the consolidated financial statements.

- PAS 28 (revised 2003), *Investments in Associates*, reduces alternatives in accounting for associates in consolidated financial statements and in accounting for investments in the separate financial statements of an investor. Investments in associates will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances. The adoption of PAS 28 will not have a material effect on the consolidated financial statements.

- PAS 31 (revised 2003), *Interests in Joint Ventures*, reduces the alternatives in accounting for interests in joint ventures in consolidated financial statements and in accounting for investments in the separate financial statements of a venturer. Interests in joint ventures will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. The adoption of PAS 31 will not have a material effect on the consolidated financial statements.

## 3. Cash and Cash Equivalents

This account consists of:

| | **2004** | 2003 |
|---|---|---|
| | (In Thousands) | |
| Cash on hand and in banks | **₱719,747** | ₱1,389,378 |
| Short-term investments | **5,640,440** | 3,465,542 |
| | **₱6,360,187** | ₱4,854,920 |

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company and its subsidiaries, and earn interest at the respective short-term investment rates.

## 4. Accounts and Notes Receivable

Accounts and notes receivable are summarized as follows:

| | 2004 | 2003 |
|---|---|---|
| | (In Thousands) | |
| Trade - net of unrealized gain of ₱3,084,583 in 2004 and ₱1,476,038 in 2003 (see Note 9) | **₱10,583,797** | ₱7,384,541 |
| Related parties (see Note 14) | **1,015,773** | 934,002 |
| Advances | **1,189,631** | 1,107,563 |
| Advances to contractors | **452,068** | 195,346 |
| Accrued receivable | **168,022** | 248,215 |
| Dividends receivable | **110,263** | 71,488 |
| Others | **498,467** | 158,802 |
| | **14,018,021** | 10,099,957 |
| Less allowance for doubtful accounts | **122,228** | 134,928 |
| | **13,895,793** | 9,965,029 |
| Less noncurrent portion | **6,444,706** | 5,458,708 |
| | **₱7,451,087** | ₱4,506,321 |

## 5. Other Current Assets

This account consists of:

| | 2004 | 2003 |
|---|---|---|
| | (In Thousands) | |
| Prepaid expenses | **₱445,573** | ₱138,188 |
| Value-added input tax | **369,229** | 64,535 |
| Others | **239,295** | 377,491 |
| | **₱1,054,097** | ₱580,214 |

## 6. Investments

This account consists of investments in:

| | 2004 | 2003 |
|---|---|---|
| | (In Thousands) | |
| Shares of stock: | | |
| At equity: | | |
| Acquisition cost | **₱5,409,982** | ₱5,181,183 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **707,338** | 597,381 |
| Equity in net earnings during the year | **295,941** | 128,417 |
| Disposal of equity investment | **(396,379)** | – |
| Dividends received during the year | **(19,035)** | (18,460) |
| Balance at end of year | **587,865** | 707,338 |
| | **5,997,847** | 5,888,521 |

(Forward)

| | 2004 | 2003 |
|---|---|---|
| | (In Thousands) | |
| At cost: | | |
| MRT Holdings, Inc. | **₱855,702** | ₱855,702 |
| Others | **617,010** | 881,505 |
| | **1,472,712** | 1,737,207 |
| | **7,470,559** | 7,625,728 |
| Land and improvements - net of amortization | **4,669,990** | 2,443,257 |
| Buildings and improvements - net of accumulated depreciation and amortization of ₱3,107,730 in 2004 and ₱2,731,582 in 2003 | **10,515,325** | 9,231,624 |
| Hotel property and equipment - net of accumulated depreciation of ₱1,521,318 in 2004 and ₱1,362,857 in 2003 (see Note 9) | **3,279,569** | 3,411,690 |
| | **₱25,935,443** | ₱22,712,299 |

The Company and its subsidiaries' equity in the net assets of associates and joint ventures and the related percentages of ownership are shown below.

| | **Percentages of Ownership** | | **Equity in Net Assets** | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | | | (In Thousands) | |
| Cebu Holdings, Inc. (CHI) and subsidiaries | **47** | 47 | **₱1,657,537** | ₱1,622,079 |
| Emerging City Holdings, Inc. (ECHI) | **50** | 50 | **1,667,735** | 1,564,576 |
| Pilipinas Makro, Inc. (PMI) | **–** | 28 | **–** | 1,125,720 |
| North Triangle Depot Commercial orporation (NTDCC) | **49** | 16 | **1,014,884** | – |
| Berkshires Holdings, Inc. (BHI) | **50** | 50 | **714,740** | 670,527 |
| Alabang Commercial Corporation (ACC) | **50** | 50 | **471,702** | 444,667 |
| BLC (through Regent) | **4** | 4 | **390,270** | 378,273 |
| Lagoon Development Corporation | **30** | 30 | **70,418** | 77,717 |
| MyAyala.com, Inc. | **50** | 50 | **2,626** | 4,962 |
| Ayala Port, Inc. (Ayala Port) | **50** | 50 | **7,935** | – |
| | | | **₱5,997,847** | ₱5,888,521 |

On April 17, 2003, the following transactions have been consummated pursuant to the terms and conditions of the Assignment Agreement, dated February 8, 2003, among the Company, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among the Company, EHI and Metro Pacific Corporation (MPC) as amended:

(a) The assignment to the Company and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US$90 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by the Company and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to the Company and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc.) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

The Assignment Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

The Company and EHI now jointly hold the 50.38% (56.19% beneficial interest) equity interest in BLC through ECHI and BHI. The Company and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus Holdings, Inc. (Columbus). Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method. The fair value of the identifiable consolidated assets and liabilities of BLC as at April 17, 2003, the date of acquisition, amounted to about ₱5.6 billion resulting in a negative goodwill of ₱1.4 billion. Columbus' amortization of negative goodwill based on FBDC lots sold amounted to ₱92.2 million and ₱27.4 million in 2004 and 2003, respectively, of which the Company shares 50% through its equity share in the net earnings of ECHI and BHI.

Regent also owns 3.9% of BLC shares which it accounted for using the equity method. Regent's negative goodwill arising from the acquisition amounted to ₱57.6 million. Negative goodwill amortization amounted to ₱3.4 million in 2004 and ₱1.1 million in 2003.

In 2004, the Company acquired additional 30.89% interest in NTDCC in exchange for the Company's interest in two companies valued at ₱320.1 million and cash amounting to ₱280.0 million. The Company infused additional cash to NTDCC amounting to ₱112.0 million for an additional 1.85% equity interest in the latter.

NTDCC was granted development rights by MRT Development Co. to construct and operate a commercial center under certain terms and conditions until the end of a 50-year lease term renewable for another 25 years.

The Company divested its equity shareholdings in PMI in 2004.

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements (like buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit.

Consolidated depreciation on buildings and improvements amounted to ₱417.6 million in 2004, ₱314.2 million in 2003 and ₱330.0 million in 2002. Consolidated depreciation on hotel property and equipment amounted to ₱169.7 million in 2004, ₱179.4 million in 2003 and ₱206.6 million in 2002. Consolidated amortization of land improvements amounted to ₱8.9 million in 2004, ₱13.4 million in 2003 and ₱16.2 million in 2002.

## 7. Property and Equipment

This account consists of:

| | Land, Buildings and Improvements | Machinery and Construction Equipment | Furniture, Fixtures and Equipment | Transportation Equipment | 2004 Total | 2003 |
|---|---|---|---|---|---|---|
| | | | (In Thousands) | | | |
| **Cost** | | | | | | |
| January 1 | **₱920,567** | **₱952,485** | **₱615,173** | **₱252,298** | **₱2,740,523** | ₱2,495,578 |
| Additions | **38,217** | **157,447** | **71,677** | **61,887** | **329,228** | 369,449 |
| Disposals | **(45,311)** | **(27,002)** | **(13,271)** | **(41,447)** | **(127,031)** | (124,504) |
| December 31 | **913,473** | **1,082,930** | **673,579** | **272,738** | **2,942,720** | 2,740,523 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| January 1 | **186,382** | **463,517** | **423,094** | **153,008** | **1,226,001** | 1,001,188 |
| Depreciation | **40,333** | **97,570** | **127,386** | **48,831** | **314,120** | 279,718 |
| Disposals | **(30,833)** | **(25,075)** | **(5,234)** | **(36,843)** | **(97,985)** | (54,905) |
| December 31 | **195,882** | **536,012** | **545,246** | **164,996** | **1,442,136** | 1,226,001 |
| Net Book Value | **₱717,591** | **₱546,918** | **₱128,333** | **₱107,742** | **₱1,500,584** | ₱1,514,522 |

Consolidated depreciation and amortization of property and equipment (charged to various accounts) amounted to ₱314.1 million in 2004, ₱279.7 million in 2003 and ₱240.6 million in 2002.

## 8. Accounts Payable and Accrued Expenses

This account consists of:

| | 2004 | 2003 |
|---|---|---|
| | (In Thousands) | |
| Accounts payable and accrued expenses | **₱4,411,035** | ₱3,308,771 |
| Taxes payable | **990,373** | 370,195 |
| Dividends payable | **325,480** | 322,875 |
| Retentions payable | **11,853** | 21,634 |
| | **₱5,738,741** | ₱4,023,475 |

9. **Short-term and Long-term Debt**

In 2004 and 2003, short-term debt consists of bank loans and short-term commercial papers (STCPs).

The Company issued STCPs in 2004 with an aggregate face value of ₱814.8 million at par with fixed and floating interest rates. The STCPs are payable lump sum at various maturity dates in 2005. The fixed-rate STCPs bear interest at 10.25% per annum (p.a.) while the floating STCPs bear interest at 50 basis points (bps) over the benchmark MART1 rate and are repriceable every three months.

STCPs in 2003 had an aggregate face value of ₱1.0 billion at par with fixed and floating interest rates. The STCPs are payable lump sum at various maturity dates in 2004. The fixed-rate STCPs bear interest at 8.20% and 8.59% p.a. while the floating STCPs bear interest at 25 bps over the benchmark 91-day rate and are repriceable every three months.

The Philippine Rating Service Corporation (PhilRatings) assigned a PRS 1 rating on the STCPs issued in 2004 and 2003, indicating the Company's strong capacity to meet its financial commitment on these issuances.

The bank loans of ₱722.0 million in 2004 and ₱457.0 million in 2003 represent unsecured peso-denominated short-term borrowings by the Company's subsidiaries with interest rates ranging from 7.2% to 9.7% p.a in 2004 and 5.75% and 10.75% p.a. in 2003. The ₱400.0 million loan drawn by the Company in 2004 is secured by a mortgage on certain parcels of land with a carrying value of ₱10.3 million. The ₱50.0 million loan drawn by a subsidiary in 2003 from an affiliate bank is subject to the Directors, Officers, Stockholders and Related Interest rules of the Bangko Sentral ng Pilipinas.

Long-term debt consists of:

| | **2004** | 2003 |
|---|---|---|
| | (In Thousands) | |
| Parent Company: | | |
| Bonds | | |
| Due 2007 | **₱3,000,000** | ₱3,000,000 |
| Due 2008 | **2,000,000** | 2,000,000 |
| Bank loans - with interest rates ranging from 7.5% to 11.4% p.a. | **1,683,333** | 3,358,333 |
| Fixed rate corporate notes (FXCNs) | **1,060,000** | 1,060,000 |
| | **7,743,333** | 9,418,333 |
| Subsidiaries: | | |
| Bank loans - with interest rates ranging from 8.0% to 12.0% p.a. | | |
| Philippine peso | **3,049,057** | 2,585,457 |
| Foreign currency | **707,643** | 920,504 |
| | **3,756,700** | 3,505,961 |
| | **11,500,033** | 12,924,294 |
| Less current portion | **1,110,738** | 1,335,995 |
| | **₱10,389,295** | ₱11,588,299 |

In 2002, the Company issued ₱3.0 billion bonds due in 2007 at par, with interest at 200 bps over benchmark 91-day T-Bills based on secondary market bids (MART 1).

In 2003, the Company issued ₱2.0 billion bonds due in 2008 with fixed and floating rate tranches. The fixed-rate bonds carry a coupon of 10.75% p.a. and have a nominal principal amount of ₱1.0 billion. The floating rate bonds, also worth ₱1.0 billion, bear a margin of 125 bps over benchmark 91-day T-Bills based on secondary market bids (MART 1) and is re-priced quarterly.

PhilRatings assigned a PRS Aaa rating on both the Company's ₱2.0 billion bond issue in 2003 and the ₱3.0 billion bond issue in 2002, indicating the Company's strong capacity to meet its financial commitment on the bond issues.

The Company's long-term bank loans will mature on various dates up to 2008. These borrowings are unsecured except for a ₱594.2 million loan drawn by the Company in 2003, which is secured by a mortgage on certain parcels of land with a carrying value of ₱10.3 million as of 2004.

The FXCNs consist of 3-, 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2012. The FXCNs bear fixed interest rates ranging from 11.875% to 14.875% depending on the term of the loan. The Company may redeem all (but not part only) of the FXCNs on the 2$^{nd}$, 3$^{rd}$, 4$^{th}$ and 7$^{th}$ anniversaries, respectively, of the 3-, 5-, 7- and 10-year FXCNs.

The subsidiaries' loans will mature on various dates up to 2011. Certain subsidiaries' loans are collateralized by trade receivables amounting to ₱52.3 million in 2003; and mortgages on real estate properties, hotel property and equipment and leasehold rights with a total carrying value of ₱3.0 billion and ₱3.2 billion as of 2004 and 2003, respectively.

The Company pledged its investment in shares of stock of SSECC with a carrying value of ₱1.4 billion and ₱1.1 billion as of 2004 and 2003, respectively, as collateral to secure the latter's bank loans.

The loan agreements contain some or all of the following restrictions: material changes in nature of business; payment of dividends; merger or consolidation; guaranties, investments or advances; encumbrance for borrowed money; sale of substantially all of assets and additional loans maturing beyond a year, except under certain conditions. These restrictions and requirements were complied with by the Company and its subsidiaries.

Interest capitalized amounted to ₱533.2 million in 2004, ₱333.4 million in 2003 and ₱288.4 million in 2002. The capitalization rates used in 2004, 2003 and 2002 ranged from 9.60 to 12.65%.

## 10. **Noncurrent Liabilities and Deposits**

Noncurrent liabilities and deposits consist of:

| | **2004** | 2003 |
|---|---|---|
| | (In Thousands) | |
| Deposits | **₱2,367,935** | ₱2,097,751 |
| Retentions payable | **479,930** | 411,349 |
| Other liabilities | **269,851** | 161,632 |
| | **₱3,117,716** | ₱2,670,732 |

## 11. **Stockholders' Equity**

The details of the number of shares (in thousands) follow:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Authorized | **12,000,000** | 12,000,000 | 12,000,000 |
| Issued | **10,774,189** | 10,760,802 | 10,691,879 |
| Subscribed | **1,181** | 1,728 | 1,842 |
| Treasury | **(24)** | (24) | (24) |
| | **10,775,346** | 10,762,506 | 10,693,697 |

No transfer of stock or interest which will reduce the ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the books of the Company.

In 2004, the Board of Directors (BOD) approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.06 per share.

In 2003, the BOD approved the issuance of 63.4 million new common shares to AC in exchange for land at a transfer price of ₱532.3 million recorded under the investments account in the consolidated balance sheets.

Retained earnings include undistributed net earnings amounting to ₱4,431.1 million, ₱3,908.7 million, and ₱3,300.1 million as of December 31, 2004, 2003 and 2002, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the investees.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

12. **Costs and Expenses**

Depreciation and amortization expense included in consolidated statements of income are as follows:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| | | (In Thousands) | |
| Included in: | | | |
| Cost of: | | | |
| Real estate | **₱565,915** | ₱457,473 | ₱430,801 |
| Hotel operations | **169,741** | 179,389 | 206,648 |
| General and administrative expenses | **201,809** | 164,815 | 172,854 |
| | **₱937,465** | ₱801,677 | ₱810,303 |

General and administrative expenses consists of:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| | | (In Thousands) | |
| Manpower cost (see Note 15) | **₱1,201,631** | ₱857,011 | ₱733,985 |
| Depreciation and amortization | **201,809** | 164,815 | 172,854 |
| Utilities | **74,290** | 62,920 | 58,031 |
| Others | **622,477** | 455,764 | 348,670 |
| | **₱2,100,207** | ₱1,540,510 | ₱1,313,540 |

Interest expense on short and long-term debt amounted to ₱917.0 million, ₱878.9 million and ₱685.1 million in 2004, 2003, and 2002, respectively.

13. **Income Taxes**

Components of the deferred tax assets and liabilities as of December 31, 2004 and 2003 are as follows:

| | **2004** | 2003 |
|---|---|---|
| | (In Thousands) | |
| Deferred tax assets on: | | |
| Unrealized gain, deposits and accruals for various expenses on real estate transactions | **₱378,288** | ₱382,711 |
| Allowance for probable losses | **133,550** | 86,296 |
| NOLCO | **69,037** | 92,141 |
| MCIT | **23,538** | 32,942 |
| Others | **45,065** | 62,734 |
| | **649,478** | 656,824 |

(Forward)

| | 2004 | 2003 |
|---|---|---|
| | | (In Thousands) |
| Deferred tax liabilities on: | | |
| Capitalized customs duties, interest and other expenses | **(₱664,810)** | (₱587,078) |
| Excess of financial realized gross profit over taxable realized gross profit | **(217,024)** | (160,002) |
| Unrealized foreign exchange gain | **(48,725)** | (36,972) |
| | **(930,559)** | (784,052) |
| | **(₱281,081)** | (₱127,228) |

Certain subsidiaries of the Company have NOLCO amounting to ₱813.1 million and ₱626.2 million as of December 31, 2004 and 2003, respectively, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on real estate sales amounting to ₱153.3 million and ₱113.8 million as of December 31, 2004 and 2003, respectively, which were also not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax assets to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2004, carryover NOLCO and MCIT (incurred in 2002 to 2004 and expires in 2005 to 2007) that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

| Year Incurred | Expiry Date | NOLCO | MCIT |
|---|---|---|---|
| | | (In Thousands) | |
| 2002 | 2005 | ₱357,512 | ₱2,841 |
| 2003 | 2006 | 90,245 | 19,877 |
| 2004 | 2007 | 581,084 | 820 |
| | | ₱1,028,841 | ₱23,538 |

At December 31, 2004 and 2003, deferred income tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries, associate or joint venture since such amounts are not taxable.

There are no income tax consequences attaching the payment of dividends by the Company and its subsidiaries to the shareholders of the Company.

Provision for income tax consists of:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | | (In Thousands) | |
| Current | **₱1,098,673** | ₱902,370 | ₱1,107,787 |
| Deferred | **153,853** | (109,268) | 17,491 |
| | **₱1,252,526** | ₱793,102 | ₱1,125,278 |

A reconciliation between the statutory and the effective income tax rates follows:

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Statutory income tax rate | **32.00%** | 32.00% | 32.00% |
| Tax effect of: | | | |
| Equity in net earnings of investees | **(2.25)** | (1.15) | (0.32) |
| Income subjected to lower income tax rates (see Note 20) | **(1.00)** | (0.74) | (0.60) |
| Interest income and capital gains taxed at lower rates | **(2.70)** | (3.16) | (1.58) |
| Others - net | **3.75** | (4.84) | 1.19 |
| Effective income tax rate | **29.80%** | 22.11% | 30.69% |

14. **Related Party Transactions**

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real properties, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at normal market prices.

Revenue from transactions with associates and other related parties amounted to ₱306.3million in 2004, ₱149.1 million in 2003 and ₱230.4 million in 2002.

The following are the outstanding balances of receivables from related parties resulting from the above transactions, as of December 31, 2004 and 2003 (see Note 4).

| | **2004** | 2003 |
|---|---|---|
| | (In Thousands) | |
| BLC | **₱639,381** | ₱505,754 |
| FBDC | **173,413** | 243,777 |
| CHI and subsidiaries | **94,407** | 78,876 |
| Manila Water Company, Inc. | **58,887** | 18,333 |
| Ayalaport Makati, Inc. | **12,593** | 24,606 |
| ACC | **11,433** | 13,226 |
| MyAyala.com, Inc. | **8,880** | 8,878 |
| Others | **16,779** | 40,552 |
| | **₱1,015,773** | ₱934,002 |

Receivables from BLC and FBDC consist of promissory notes issued by BLC, which were assigned by MPC to the Company and EHI; the advances subsequently made by the Company to FBDC to fund the completion of the Bonifacio Ridge project and to BLC to finance the costs to be incurred in relation to its restructuring program. These notes and advances are due and demandable and bear interest at the rate of 12% to 14% per annum.

## 15. **Retirement Plan**

The Company and its subsidiaries have funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined contribution formula with minimum lump-sum guarantee of 1.5 months' basic salary per year of service. The consolidated retirement costs charged to operations amounted to ₱335. 1 million in 2004, ₱118.9 million in 2003 and ₱76.8 million in 2002.

Based on the latest actuarial valuations of the Company and its subsidiaries, the aggregate actuarial present value of pension benefits amounted to ₱1,034.65 million. The aggregate fair value of their respective plan assets amounted to ₱522.07 million. The principal actuarial assumptions used to determine the cost of pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. Actuarial valuations are made at least every one to three years. The Company's and its subsidiaries' annual contributions to their respective plans consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

## 16. **Earnings Per Share**

The following table presents information necessary to compute EPS (in thousands except EPS):

| | **2004** | 2003 | 2002 |
|---|---|---|---|
| Net income | **₱3,008,472** | ₱2,709,155 | ₱2,518,515 |
| Weighted average number of common shares for basic EPS | **10,766,243** | 10,706,701 | 10,693,608 |
| Dilutive shares arising from stock options | **26,510** | 26,424 | 7,074 |
| Adjusted weighted average number of common shares for diluted EPS | **10,792,753** | 10,733,125 | 10,700,682 |
| Basic EPS | **₱0.28** | ₱0.25 | ₱0.24 |
| Diluted EPS | **₱0.28** | ₱0.25 | ₱0.24 |

## 17. **Stock Option Plans**

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 2.5% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The qualified officers and employees may exercise in whole or in part his vested option in accordance with the vesting percentage and vesting schedule stated in the plan. Also, to exercise the vested option, the officers and employees are required to continue employment with the Company or any of its subsidiaries for the 10 year option period. In case the officer resigns, he is given 90 days to exercise his vested options, and, if the officer retires, he is given 3 years to exercise his vested and unvested option. In case the employee resigns and has met the 5-year holding period, he is given an option to fully pay the remaining unpaid balance of the subscribed shares or terminate in full the subscribed shares. If the 5-year holding period is not met, the subscribed shares will be cancelled and all payments made by the employee will be refunded to him. Stock dividends accruing from the original subscribed shares, if any, will be given to the employee.

Subscriptions receivable from the stock option plans are presented in the statements of changes in stockholders' equity.

In November 2001, the Company offered all its ESOWN subscribers with outstanding subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

Movements in the number of stock options outstanding are as follows:

| | ESOP | | ESOWN | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| At January 1 | **116,756,618** | 100,680,653 | **2,141,100** | 2,141,100 |
| Granted | **30,501,923** | 37,592,500 | **–** | – |
| Exercised | **(39,680,027)** | (21,402,256) | **–** | – |
| Cancelled | **–** | (114,279) | **–** | – |
| At December 31 | **107,578,514** | 116,756,618 | **2,141,100** | 2,141,100 |

The options that have been exercised had a weighted average exercise price of ₱4.48 or about ₱173.3 million in 2004 and ₱4.17 or about ₱88.6 million in 2003. The average fair market value of the shares as at exercise date was ₱6.50 or about ₱256.4 million in 2004 and ₱6.36 or about ₱135.5 million in 2003.

Outstanding options for the executives and key officers have the following terms:

| Exercise Dates | Number of Options |
|---|---|
| 2002 to 2011 | 8,109,559 |
| 2003 to 2012 | 17,511,871 |
| 2004 to 2013 | 25,945,821 |
| 2005 to 2014 | 29,241,577 |
| 2006 to 2015 | 17,619,109 |
| 2007 to 2016 | 9,150,577 |
| | 107,578,514 |

## 18. **Segment Information**

The industry segments where the Company and its subsidiaries and associates operate are as follows:

- Land, condominium and residential units - development and sale of lots for residential, business and industrial purposes, development of residential and office condominium projects and single-detached housing for high-end, middle income and low income markets;
- Rentals - development of commercial centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts and entertainment facilities in these commercial centers; office units and carparks leasing;
- Hotel operations - development and operation of hotels and serviced apartments;
- Construction - engineering, design and construction of vertical and horizontal developments;
- Others - management services contracts and other investment activities

The Company and its subsidiaries and associates generally accounts for inter-segment rates and transfers as if the sales and transfers were to third parties at current market prices.

*Business segments*

The following tables regarding business segments present assets and liabilities as of December 31, 2004 and 2003 and revenues and income information for each of the three years in the period ended December 31, 2004 (in thousands).

2004

| | Land, Condominium and Residential Units | Rentals | Hotel Operations | Construction | Others | Total |
|---|---|---|---|---|---|---|
| Revenue | ₱9,567,725 | ₱3,937,667 | ₱1,549,217 | ₱989,115 | ₱2,083,067 | ₱18,126,791 |
| Operating expenses | 7,631,993 | 1,142,267 | 1,184,097 | 733,132 | 966,854 | 11,658,343 |
| Earnings before interest taxes, depreciation and amortization (EBITDA) | 1,935,732 | 2,795,400 | 365,120 | 255,983 | 1,116,213 | 6,468,448 |
| Depreciation and amortization | 68,595 | 567,252 | 177,080 | 91,846 | 32,692 | 937,465 |
| EBIT | ₱1,867,137 | ₱2,288,148 | ₱188,040 | ₱164,137 | ₱1,083,521 | ₱5,530,983 |
| Segment assets | ₱36,053,822 | ₱18,332,632 | ₱4,227,844 | ₱1,281,637 | ₱12,803,192 | ₱72,699,127 |
| Deferred tax assets | | | | | | 649,478 |
| Total assets | | | | | | ₱73,348,605 |
| Segment additions to property and equipment | ₱98,003 | ₱50,539 | ₱658 | ₱133,474 | ₱86,775 | ₱369,449 |
| Segment liabilities | ₱13,556,558 | ₱4,741,101 | ₱3,455,774 | ₱854,108 | ₱12,085,050 | ₱34,692,591 |
| Deferred tax liabilities | | | | | | 930,559 |
| Total liabilities | | | | | | ₱35,623,150 |

2003

| | Land, Condominium and Residential Units | Rentals | Hotel Operations | Construction | Others | Total |
|---|---|---|---|---|---|---|
| Revenue | ₱7,253,899 | ₱3,589,669 | ₱1,282,325 | ₱759,112 | ₱1,738,927 | ₱14,623,932 |
| Operating expenses | 5,553,322 | 1,103,412 | 926,653 | 589,262 | 545,339 | 8,717,988 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | 1,700,577 | 2,486,257 | 355,672 | 169,850 | 1,193,588 | 5,905,944 |
| Depreciation and amortization | 67,308 | 403,546 | 186,470 | 72,713 | 71,640 | 801,677 |
| EBIT | ₱1,633,269 | ₱2,082,711 | ₱169,202 | ₱97,137 | ₱1,121,948 | ₱5,104,267 |
| Segment assets | ₱31,428,496 | ₱15,232,374 | ₱4,336,504 | ₱1,261,527 | ₱14,096,327 | ₱66,355,228 |
| Deferred tax assets | | | | | | 656,824 |
| Total Assets | | | | | | ₱67,012,052 |
| Segment additions to property and equipment | ₱89,742 | ₱18,306 | ₱1,684 | ₱101,656 | ₱117,840 | ₱329,228 |
| Segment liabilities | ₱10,030,591 | ₱3,434,089 | ₱3,179,197 | ₱984,413 | ₱13,326,439 | ₱30,954,729 |
| Deferred tax liabilities | | | | | | 784,052 |
| | | | | | | ₱31,738,781 |

2002

| | Land, Condominium and Residential Units | Rentals | Hotel Operations | Construction | Others | Total |
|---|---|---|---|---|---|---|
| Revenue | ₱5,608,105 | ₱3,329,626 | ₱1,308,957 | ₱922,326 | ₱1,045,119 | ₱12,214,133 |
| Operating expenses | 4,149,660 | 823,869 | 904,557 | 715,318 | 448,825 | 7,042,229 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | 1,458,445 | 2,505,757 | 404,400 | 207,008 | 596,294 | 5,171,904 |
| Depreciation and amortization | 50,409 | 432,755 | 213,862 | 56,213 | 57,064 | 810,303 |
| EBIT | ₱1,408,036 | ₱2,073,002 | ₱190,538 | ₱150,795 | ₱539,230 | ₱4,361,601 |

## 19. Note to Consolidated Statements of Cash Flows

The principal noncash transactions of the Company in 2003 are as follows:

- Issuance of shares to AC in exchange for land at a transfer price of ₱532.3 million (see Note 11).
- Assignment of ₱2.1 billion notes receivable from MPC in exchange for equity in ECHI and BHI (see Note 6).

## 20. Registration with Philippine Economic Zone Authority (PEZA)

A subsidiary is registered with PEZA on October 27, 1999 as a non-pioneer "ecozone developer/operator." The PEZA registration entitled the subsidiary to a four-year income tax holiday from the start of its commercial operations. At the expiration of its four-year tax holiday, the subsidiary shall pay income tax at the special tax rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes.

## 21. **Leases**

The Company and some of its subsidiaries enter into lease agreements with third parties covering retail space and land therein and office units. These leases have terms ranging from 1 to 25 years and generally provides for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. All leases include a clause to enable upward revision on its rental charge on annual basis based on prevailing market conditions.

## 22. **Long-term Commitments and Contingencies**

The Company has an existing contract with the BCDA to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the Company obtained surety bonds to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement. The surety bonds are secured by a mortgage on a property of certain subsidiary with a carrying value of ₱48.6 million in 2004.

Future minimum rental payables under the non-cancellable operating lease with BCDA as of December 31, 2004 are as follows: within one year - ₱106.5 million as of 2004 and 2003; after one year but not more than 5 years - ₱425.9 million as of 2004 and 2003; and, after more than 5 years - ₱ 1,703.7 million as of 2004 and ₱1,810.2 million as of 2003. Contingent rentals charged to operations amounted to ₱9.4 million in 2004.

On April 15, 2003, the Company entered into a Joint Development Agreement (JDA) with BCDA for development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.

The Company procured a surety bond with a face value of ₱122.9 million issued by an insurance company in favor and for the benefit of BCDA as beneficiary. The surety bond shall be continuing in nature and shall secure the obligation of the Company to pay BCDA annual minimum revenue share for each of the first 8 selling periods of the residential project.

On March 24, 2004, the Company assigned in favor of Serendra all of its development rights and interest under the JDA, as amended.

In 2002, the Company agreed to underwrite the subscription to North Triangle Depot Commercial Corporation (NTDCC) additional shares amounting to ₱1.4 billion over a 4-year equity schedule up to 2007 in exchange for a 5% underwriting fee (net of a 1.5% rebate to existing shareholders who subscribed).

The Company and its subsidiaries have various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect of the Company and its subsidiaries' financial position and results of operations. The information usually required by SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments. No provisions were made during the year.

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