

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1995

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Stockholders and the Board of Directors
DMCI Holdings, Inc.

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income and cash flows for the year ended December 31, 1996 and the ten months ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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.

As discussed in Note 1 to the consolidated financial statements, the Company was incorporated and started commercial operations on March 8, 1995.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for the periods then ended, in conformity with generally accepted accounting principles.

PTR No. 8886544
January 9, 1997
Makati City

April 8, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Stockholders and the Board of Directors
DMCI Holdings, Inc.
DACON Building, 2281 Pasong Tamo Extension
Makati City

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DMCI Holdings, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for the periods then ended, in conformity with generally accepted accounting principles.

LAURA SUAREZ ACUZAR
Partner
CPA Certificate No. 23390
PTR No. 8886544
January 9, 1997
Makati City

April 8, 1997

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	1996	1995
ASSETS		
Current Assets		
Cash and cash equivalents	₱308,243,134	₱174,097,638
Marketable equity securities (net of allowance for decline in value of ₱19,806,462)	50,432,591	—
Receivables - net (Notes 3, 9, and 13)	3,465,879,932	1,632,816,980
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 4)	52,270,172	21,165,576
Inventories (Note 5)	232,797,043	103,191,993
Other current assets	34,801,577	18,539,615
Total Current Assets	4,144,424,449	1,949,811,802
Funds Held by Custodian Bank (Note 6)	323,790	2,174,560,112
Real Estate Held for Sale and Development (Note 7)	1,073,121,637	419,842,996
Investments (Note 8)	2,673,757,318	488,286,270
Property, Plant and Equipment - net (Note 9)	1,782,875,008	831,340,549
Other Assets	77,474,116	38,756,438
	₱9,751,976,318	₱5,902,598,167
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 10)	₱128,365,515	₱43,400,000
Accounts payable and accrued expenses	1,224,811,699	636,212,830
Acceptances payable	257,077,910	144,010,835
Loans payable (Note 11)	344,575,504	71,374,003
Income tax payable	69,950,363	58,733,352
Subscriptions payable (Notes 8 and 16)	90,000,000	122,737,500
Payables to affiliated companies (Note 13)	108,784,258	31,191,385
Deferred income tax (Note 12)	392,889,245	247,175,830
Total Current Liabilities	2,616,454,494	1,354,835,735
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts (Note 4)	1,484,920,351	589,178,510
Subscriptions Payable (net of current portion of ₱90,000,000) (Notes 8 and 16)	180,000,000	—
Deferred Real Estate Revenues	211,089,427	31,926,800
Minority Interest	45,942,723	33,403,084
Stockholders' Equity		
Capital stock: (Note 15)		
Cumulative, convertible preferred stock - ₱1 par value		
Authorized - 100,000,000 shares in 1996	—	—
Common stock - ₱1 par value		
Authorized - 1,650,000,000 shares in 1996 and 1,750,000,000 shares in 1995		
Issued - 1,127,747,000 shares	1,127,747,000	1,127,747,000
Additional paid-in capital (Notes 8 and 15)	2,643,443,387	2,373,452,402
Retained earnings: (Note 8)		
Balance at beginning of period	392,054,636	—
Net income for the period	1,050,324,300	392,054,636
Balance at end of period	1,442,378,936	392,054,636
	5,213,569,323	3,893,254,038
	₱9,751,976,318	₱5,902,598,167

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1996
AND THE TEN MONTHS ENDED DECEMBER 31, 1995*

	1996 (One Year)	1995 (Ten Months)
REVENUES		
Construction contracts	₱5,386,635,976	₱3,203,837,920
Real estate sales	920,957,863	278,537,220
Merchandise sales	322,114,511	204,152,825
Equity in net earnings of unconsolidated affiliated companies (Note 8)	73,123,296	7,971,486
Interest and others	193,922,782	122,833,326
	6,896,754,428	3,817,332,777
COSTS AND EXPENSES		
Contract costs and expenses	4,452,836,176	2,589,836,462
Cost of real estate sales	177,839,766	32,334,436
Cost of merchandise sales	258,966,533	163,144,108
General and administrative	360,521,094	272,592,838
Provisions for probable losses on assets and other expenses	131,529,154	—
	5,381,692,723	3,057,907,844
INCOME BEFORE INCOME TAX	1,515,061,705	759,424,933
PROVISION FOR INCOME TAX (Note 12)		
Current	305,984,351	149,797,681
Deferred	145,713,415	104,744,794
	451,697,766	254,542,475
INCOME BEFORE MINORITY INTEREST AND PREACQUISITION EARNINGS	1,063,363,939	504,882,458
MINORITY INTEREST	(13,039,639)	(10,404,277)
INCOME BEFORE PREACQUISITION EARNINGS	1,050,324,300	494,478,181
PREACQUISITION EARNINGS (Note 2)	—	(102,423,545)
NET INCOME	₱1,050,324,300	₱392,054,636
Earnings Per Share	₱0.93	₱0.73

*The Company was incorporated and started commercial operations on March 8, 1995.

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1996
AND THE TEN MONTHS ENDED DECEMBER 31, 1995*

	1996 (One Year)	1995 (Ten Months)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₱1,050,324,300	₱392,054,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	284,161,800	112,359,040
Provisions for:		
Deferred income tax	145,713,415	104,744,794
Decline in value of marketable equity securities	19,806,462	-
Minority interest	13,039,639	10,404,277
Preacquisition earnings	-	102,423,545
Gain on sale of real estate	(649,285,023)	(267,935,147)
Equity in net earnings of unconsolidated affiliated companies	(73,123,296)	(7,971,486)
Changes in operating assets and liabilities:		
Increase in:		
Receivables - net	(1,653,900,325)	(1,600,890,180)
Inventories - net	(129,605,050)	(103,191,993)
Other current assets	(16,261,962)	(18,539,615)
Accounts payable and accrued expenses	644,549,520	636,212,830
Acceptances payable	113,067,075	144,010,835
Income tax payable	11,217,011	58,733,352
Payables to affiliated companies	77,592,873	31,191,385
Billings in excess of costs and estimated earnings on uncompleted contracts - net	864,637,245	568,012,934
Deferred income tax - net	-	142,431,036
Net cash provided by operating activities	701,933,684	304,050,243
CASH FLOWS FROM INVESTING ACTIVITIES		
Funds held by custodian bank	2,118,285,671	(2,174,560,112)
Proceeds on sale of:		
Real estate	677,715,743	300,129,654
Investments	5,887,800	-
Additions to:		
Investments	(1,702,158,628)	(357,577,284)
Property, plant and equipment	(1,233,144,546)	(975,894,096)
Real estate held for sale and development	(406,798,598)	(348,468,993)
Marketable equity securities	(70,239,053)	-
Other assets	(41,802,092)	(38,756,438)
Net cash used in investing activities	(652,253,703)	(3,595,127,269)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bank loans	84,965,515	43,400,000
Dividends paid to minority interest	(500,000)	-
Issuance of capital stock	-	3,398,775,857
Minority interest	-	22,998,807
Net cash provided by financing activities	84,465,515	3,465,174,664
NET INCREASE IN CASH AND CASH EQUIVALENTS	134,145,496	174,097,638
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	174,097,638	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱308,243,134	₱174,097,638

* The Company was incorporated and started commercial operations on March 8, 1995.

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

The Company was incorporated and started commercial operations on March 8, 1995 primarily to engage in construction contracting, real estate development and infrastructure project development. The Company's construction contracting business is conducted through its wholly owned subsidiary, D.M. Consunji, Inc. (DMCI), whereas its real estate and infrastructure project development activities are conducted through DMCI Project Developers, Inc. (PDI), another wholly owned subsidiary. PDI was incorporated on April 27, 1995 and commenced commercial operations in July 1995.

On February 21, 1997, the stockholders of PDI approved the merger among PDI and its nine (9) wholly owned subsidiaries in accordance with the terms and conditions of the Plan of Merger executed by the parties. The Plan of Merger, which shall be effective upon the approval and issuance of the Certificate of Merger by the Securities and Exchange Commission (SEC), provided for, among others: (a) the merger among Bahag-Hari Land Developers, Inc., Bambang Development Corporation, Ususan Development Corporation, Tagig Land Development Corporation, Hagonoy Development Corporation, Matina Realty and Development Corporation, Pasong Tamo Properties, Inc., Marimar Land Developers, Inc., Kamagong Realty and Land Development Corporation (the Absorbed Corporations), and PDI; (b) the cessation of the separate corporate existence of all the Absorbed Corporations, upon approval by the SEC, and thereupon and thereafter, all the rights, privileges, immunities, franchises, all properties, all and every other interest of, or belonging to, or due to, and all liabilities and obligations of the Absorbed Corporations shall be taken and deemed to be transferred to and vested in PDI without further act or deed; and, (c) that each share of stock of the Absorbed Corporations issued and outstanding immediately prior to the effectivity of the merger shall be cancelled and retired and shall cease to exist, without conversion thereof, or that no shares of stock shall be issued by the Company to the Absorbed Corporations.

As of April 8, 1997, the merger is still subject to the approval of SEC.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements included the accounts of the Company and its wholly owned subsidiaries, DMCI and PDI. The financial statements of DMCI included the accounts of its consolidated subsidiaries; namely, Beta Electric Corporation (50.1% owned), Obayashi Philippines Corporation (56% owned), Integrated Asia Corporation (formerly Asia Industries Agro-Industrial Machinery Corporation) (50.1% owned), and Asia Industries Materials Handling Equipment, Inc. (53% owned). The financial statements of PDI included the accounts of its wholly owned subsidiaries; namely, Tagig Land Development Corporation, Bambang

Development Corporation, Bahag-hari Land Developers, Inc., Hagonoy Development Corporation, Matina Realty and Development Corporation, Ususan Development Corporation, Pasong Tamo Properties, Inc., Marimar Land Developers, Inc., and Kamagong Realty and Land Development Corporation (see Note 1).

Inasmuch as the Company was incorporated only on March 8, 1995, DMCI became a wholly owned subsidiary of the Company only on June 20, 1995. Accordingly, the Company and its subsidiaries' consolidated net income for the year ended December 31, 1995 was reduced by DMCI's net income from January 1, 1995 to June 19, 1995 of ₱102,423,545, which was shown in the Consolidated Statements of Income as "Preacquisition Earnings."

All significant intercompany transactions and balances among the subsidiaries are eliminated in consolidation.

Revenue and Cost Recognition

Construction. Revenues from construction contracts are recognized on the percentage of completion method of accounting and are measured principally on the basis of the estimated completion of a physical proportion of the contract work. Contracts to manage, supervise, or coordinate the construction activity of others and those contracts wherein the materials and services are supplied by contract owners are recognized only to the extent of the contracted fee revenue.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance. When it is probable that the total contract costs will exceed total contract revenues, the expected loss is recognized immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts which are not treated as a single construction contract. Changes in job performance, job 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. Profit incentives are recognized as revenues when their realization is reasonably assured.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents total costs incurred and estimated earnings recognized in excess of amounts billed. The liability, "Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts," represents billings in excess costs incurred and estimated earnings recognized. Contract retentions are included in contracts receivable.

Real Estate. Real estate sales, which consisted primarily of the sale of condominium units, where PDI has material obligations under the sales contracts to provide improvements after the property is sold are accounted for under the percentage-of-completion method. Under this

method, the gain on sale is recognized as the related obligations are fulfilled. Revenues allocable to the unfulfilled obligations are deferred and presented as “Deferred Real Estate Revenues” in the consolidated balance sheets. If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until such criterion is met.

Under the deposit method, revenue recognition is deferred until the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are considered as Customers’ Advances and Deposits and included in the “Accounts Payable and Accrued Expenses” account in the consolidated balance sheets.

Real estate costs that relate to the acquisition, development, improvement and construction of the real estate projects are capitalized. Interest costs are capitalized while the development and construction of the real estate projects are in progress.

Cash and Cash Equivalents

All highly liquid instruments maturing within a period of three months or less from the date of acquisition are considered as cash equivalents.

Marketable Equity Securities

Investments in current marketable equity securities are carried at the lower of aggregate cost or market value determined at balance sheet date. The amount by which the aggregate cost of the marketable securities exceeds market value is accounted for as a valuation allowance. Changes in the valuation allowance to reduce the carrying amount of marketable equity securities to market or to recognize any recoveries in market value are reflected in income for the period.

Inventories

Inventories are stated at the lower of cost or market. The cost of construction materials, supplies, and spare parts held for sale is determined by the first-in, first-out method; installation materials, supplies and parts by the moving average method; and equipment units held for sale by the specific identification method.

Real Estate Held for Sale and Development

Real estate held for sale and development is carried at the acquisition costs of the real estate properties plus the costs incurred for the development, improvement and construction of the real estate projects.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties. Interest costs arising from the purchase and construction of long term fixed assets are capitalized and are being amortized over the estimated useful lives of the related assets.

Investments

Investments in the shares of stock of the following investee companies that are at least 20% owned, are accounted for by the equity method:

<u>Investee Company</u>	<u>Percentage of Ownership</u>	
	<u>1996</u>	<u>1995</u>
Bachy Soletanche Philippines Corporation	49.00	49.00
Vulcan Materials Corporation	49.00	49.00
Atlantic, Gulf, & Pacific Company of Manila, Incorporated (AG&P) (see Note 8)	40.00	–
Universal Rightfield Property Holdings, Inc. Inc. (URPHI) (see Note 8)	34.93	–
Constress Philippines, Inc.	33.10	33.10
Freyssinet Philippines, Inc.	33.06	33.05
Freyssinet Davao, Inc.	33.06	–
Freyssinet Glassfiber & Lightweight Concrete, Inc.	33.06	–
Freyssinet Manila, Inc.	33.06	–
Freyssinet Post Tensioning Systems	33.06	–
Freyland Properties, Inc.	26.10	–
Montecito Properties, Inc.	25.00	–
Metro Tagaytay Land Co., Inc. (MTLCI)	22.00	–
Rightfield Property Ventures Inc. (Rightfield) (see Note 8)	–	37.50

Under the equity method, the investments in shares of stock are carried at cost adjusted principally for the Company's equity in the net earnings or losses of the investee companies from dates of acquisition. Equity in net earnings or losses is also adjusted for the straight-line amortization of the difference between the cost of the investments and the Company's equity in the underlying net assets of the investee companies at dates of acquisition. Any increase or decrease in the Company's ownership percentage and equity in the net assets of the subsidiaries or affiliated companies, resulting from issuances of shares of stock by the subsidiaries or affiliated companies, are credited or charged to additional paid-in capital.

Other investments in shares of stock are carried at cost.

An allowance is set up for any substantial and presumably permanent decline in the carrying value of such investments.

Investments in real estate are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the properties.

Minor repairs and maintenance are charged to income as incurred, significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Pre-operating Expenses

Expenses incurred prior to the start of the Company and PDI's commercial operations are capitalized and amortized over five (5) years.

Income Taxes

Effective January 1, 1995, the subsidiaries changed their method of accounting for income taxes from the deferred method to the liability method required by the Statement of Financial Accounting Standards (SFAS) No. 23 "Accounting for Income Taxes." Under SFAS No. 23, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases, resulting primarily from contracts in progress and allowance for doubtful accounts for DMCI and deferred real estate revenues and deferred selling expenses for PDI. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled.

An allowance is provided for deferred tax assets which are not reasonably expected to be realized in the future. Any change in the valuation allowance on deferred tax assets is included in the computation of the provision for deferred income tax for the period.

Construction contracts are reported for income tax purposes on the completed contract method.

Foreign Currency Transactions

Exchange gains or losses arising from foreign currency transactions are credited or charged to current operations.

Retirement Costs

Retirement costs are actuarially computed and are funded as accrued.

Earnings Per Share

Earnings per share is computed based on the weighted average number of shares outstanding during the period adjusted to give retroactive effect to any stock dividends declared during the period.

3. Receivables

Receivables consisted of:

	1996	1995
Construction contracts (including retention receivable on uncompleted contracts of ₱650,634,622 in 1996 and ₱196,212,114 in 1995)	₱1,988,571,773	₱1,167,169,769
Real estate contracts	615,556,147	34,444,803
Advances to subcontractors and suppliers	533,667,046	241,413,665
Merchandise trade	122,180,890	59,360,757
Affiliated companies (see Note 13)	125,741,643	102,036,692
Others	219,005,663	53,623,360
	3,604,723,162	1,658,049,046
Less allowance for doubtful accounts	138,843,230	25,232,066
	₱3,465,879,932	₱1,632,816,980

Real estate contracts receivable included the balance of the proceeds of about ₱418 million in 1996 and ₱45.3 million in 1995 from the sale of PDI's allocated units in a real estate project which is collectible until 1998. Furthermore, this account also included the balance as of December 31, 1996 amounting to ₱353,333,998 of the receivable arising from DMCI's sale of certain parcels of land and warehouses which are no longer used in its operations, which is collectible in various installments in 1997 (see Note 9). The portion of the real estate contracts receivable collectible within one year amounted to about ₱565.1 million and ₱22.3 million as of December 31, 1996 and 1995, respectively.

4. Costs, Estimated Earnings, and Billings on Uncompleted Contracts

The details of the costs, estimated earnings, and billings on uncompleted contracts are as follows:

	1996	1995
Total costs incurred	₱6,495,085,324	₱3,191,046,868
Add estimated earnings (net of estimated contract losses of ₱27,633,609 in 1996)	1,455,846,558	751,603,746
	7,950,931,882	3,942,650,614
Less total billings (including unliquidated advances from contract owners of ₱1,596,627,519 in 1996 and ₱647,935,351 in 1995)	9,383,582,061	4,510,663,548
	(₱1,432,650,179)	(₱568,012,934)

The foregoing balances are included in the accompanying consolidated balance sheets under the following accounts:

	1996	1995
Costs and estimated earnings in excess of billings on uncompleted contracts	₱52,270,172	21,165,576
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,484,920,351)	(589,178,510)
	(₱1,432,650,179)	(₱568,012,934)

5. Inventories

The details of inventories are as follows:

	1996	1995
Equipment units and spare parts held for sale	₱104,824,785	₱38,648,608
Construction and installation materials, parts and supplies	131,722,144	45,529,122
	236,546,929	84,177,730
Less allowance for inventory obsolescence	9,289,386	4,963,768
	227,257,543	79,213,962
Equipment units, materials and spare parts in transit	5,539,500	23,978,031
	₱232,797,043	₱103,191,993

6. Funds Held by Custodian Bank

This account represents the balance of the net proceeds of the Company's initial public offering on December 18, 1995 of 34% of its outstanding capital stock (306,747,000 primary shares and 76,687,000 secondary shares at an offer price of ₱9.12 per share) which was deposited with a local custodian bank. The custodian bank has the duty of investing the funds in marketable securities, short-term loans, and other investments; monitoring withdrawals or disbursements thereof; and ensuring that all withdrawals and orders for payment made are in connection with, or relating to, any of the purposes specified in the work program submitted to the Securities and Exchange Commission (SEC) in connection with the initial public offering. As of December 31, 1996, the Company had already disbursed ₱2,768,215,974 from the fund for investments in real estate and infrastructure development projects and to finance its wholly owned subsidiaries' acquisitions of real estate properties and construction equipment in accordance with the work program.

7. Real Estate Held for Sale and Development

Real estate held for sale and development consisted of the following:

	1996	1995
Real estate under development	₱52,689,437	₱118,049,488
Land held for future development (see Note 11)	1,020,432,200	301,793,508
	₱1,073,121,637	₱419,842,996

The estimated cost to complete PDI's real estate project amounted to about ₱95 million and ₱198 million as of December 31, 1996 and 1995, respectively.

8. Investments

The details of the Company's investments are as follows:

	1996	1995
Shares of Stock:		
At equity:		
Acquisition cost:		
Balance at beginning of period	₱270,573,119	₱33,291,981
Acquisitions during the period (subscriptions payable of which amounted to ₱270,000,000 in 1996) (see Note 16)	1,182,476,781	242,250,000
Disposals during the period	-	(4,968,862)
Balance at end of period	1,453,049,900	270,573,119
Accumulated equity in net earnings:		
Balance at beginning of period	28,041,259	13,869,604
Equity in net earnings (net of dividends and goodwill amortization)	72,461,295	7,971,486
Disposals during the period	-	6,200,169
Balance at end of period	100,502,554	28,041,259
	1,553,552,454	298,614,378
At cost	61,858,803	13,814,565
	1,615,411,257	312,428,943
Deposits on Future Subscriptions	325,373,200	-
Advances to Real Estate Joint Ventures (see Notes 13 and 16)	440,836,455	-
Real Estate Properties:		
Land (see Note 11)	255,591,013	142,927,190
Building units- net of accumulated depreciation of ₱3,332,384 in 1996 and ₱2,913,179 in 1995	36,545,393	32,930,137
	292,136,406	175,857,327
	₱2,673,757,318	₱488,286,270

The Company's share in the undistributed earnings of its subsidiaries and affiliated companies included in retained earnings amounting to ₱1,281,226,211 as of December 31, 1996 is not currently available for dividend declaration by the Company until actually distributed by such subsidiaries and affiliated companies. On March 6, 1997, the Board of Directors of DMCI, approved the declaration of cash dividends amounting to ₱1.1 billion to stockholders of record as of March 31, 1997, payable on or before April 11, 1997.

AG&P

On October 10, 1996, the Company and Buenaventura Filamor Echauz (BFE) entered into a Memorandum of Agreement (amended on October 29, 1996) with AGP Industrial Corporation (AGPI) and Marubeni Corporation (Marubeni), AG&P's major existing shareholders as of such date, pursuant to which, the Company and BFE will invest ₱400 million (fully paid as of April 8, 1997) into AG&P in exchange for 51% of AG&P's outstanding capital stock, with the Company subscribing to 40% equity of AG&P. The agreement also provided that the Company and BFE, subject to their business judgement, shall extend such advances, credit facilities or other funds to AG&P totalling to approximately ₱800 million to be secured by the real properties of AG&P, to enable AG&P to pay its trade creditors, or otherwise service its debt obligations.

As of April 8, 1997, the Company has already made cash advances to AG&P totalling to about ₱210 million.

Also, on October 29, 1996, the Company and BFE (collectively referred to as "investors"), together with AGPI and Marubeni (collectively referred to as "existing shareholders") executed a Shareholders Agreement whereby the parties have agreed, among others, on the following:

(a) any of the investors or the existing shareholders who may wish to transfer, sell or assign or otherwise dispose of all or any part of its shares to a bonafide third party purchaser shall first offer such shares to each of the other shareholders of AG&P the type of transfers specifically allowed under the Agreement, (b) restriction on the declaration of dividends until AG&P has fully paid the advances made by any shareholders to AG&P, and (c) vote in favor of and cause their respective nominee directors to vote in favor of a merger between AG&P and AGPI on an audited book-value for book-value basis without any premium added to the values of either corporation.

In furtherance of and to fully implement Section 6 of the Memorandum of Agreement dated October 10, 1996 relating to the merger between AG&P and AGPI, the contracting parties and Trans-Philippine Investment Corporation (TPIC), also executed an Agreement to Approve Merger (Merger Approval Agreement). Furthermore, the Merger Approval Agreement also provided that the Company and BFE recognized the debt to equity conversion of TPIC's advances to AGPI into AGPI's shares that will take place prior to the merger. As contained in the Merger Approval Agreement, after the merger, AGPI shall be the surviving corporation with 51% of its outstanding capital stock owned effectively by both the Company and BFE, 9.8% of its shares owned by Marubeni Corporation and 38.4% owned by the shareholders of AGPI before the merger. AGPI's corporate name will subsequently be changed to "Atlantic, Gulf & Pacific Company of Manila, Incorporated."

URPHI

On May 3, 1996, the SEC approved the merger of Universal Petroleum Equity and Property Ventures, Inc. (Universal Property), Rightfield and URPHI as provided for in the Plan of Merger executed by the parties. The Plan of Merger provided for, among others, the: (a) merger of Universal Property and Rightfield into URPHI, with URPHI as the surviving corporation; (b) cessation of the corporate existence of Universal Property and Rightfield upon approval by the SEC of the merger, and thereupon, all rights, privileges, powers, franchises, properties and all liabilities of Universal Property and Rightfield as of May 3, 1996 shall be vested in URPHI. The Plan of Merger further stipulated that subject to the surrender by the registered owners of Rightfield of their corresponding certificates of stock to URPHI, the outstanding shares of Rightfield, except those owned by Universal Property, and Universal Property shall be exchanged with shares of stock of the URPHI at the ratio of three (3) shares of URPHI for every one (1) share of Universal Property and Rightfield, as determined on the basis of the amount of the net assets as of November 30, 1995 of Rightfield and Universal Property to be absorbed by URPHI.

Pursuant to the Plan of Merger, URPHI issued 1,494,500,000 shares at a par value of ₱1.00 per share or an aggregate value of ₱1,494,500,000 to Rightfield shareholders (except for the Rightfield shares owned by URPHI/Universal Property prior to the merger representing 25.13% of the capital stock of Rightfield). In exchange for the foregoing shares of URPHI and the previous amount paid (net of subscriptions payable of ₱96 million) by URPHI/Universal Property in acquiring 25.13% of the outstanding capital stock of Rightfield amounting to ₱155,765,000, URPHI received the net assets of Rightfield totalling to ₱1,187,040,985.

Accordingly, as a result of the merger, PDI's equity amounting to ₱568,423,087, in the resulting net assets of URPHI as of May 3, 1996 (inclusive of subscriptions receivable amounting to ₱393,743,750), net of goodwill recognized by URPHI of ₱463,224,010 as a result of the merger transaction, exceeded by ₱269,990,985 the carrying value of PDI's investment of ₱298,432,102. The excess of the PDI's equity in the net assets of URPHI over the carrying value of its investment of ₱269,990,985 is recognized and included in the "Additional paid-in capital" account in the "Stockholders' Equity" section of the consolidated balance sheets.

North Luzon Railways Corporation (Northrail)

On June 10, 1995, the Bases Conversion Development Authority (BCDA), a government corporation, Philippine National Railways (PNR), and a consortium comprised of foreign investors and local partners (Consortium) entered into a Joint Venture Agreement to undertake the construction of a double-track railway system from Metro Manila to Clark (as Phase I) with an extension to Subic Bay Freeport Zone (as Phase II), and a possible extension to San Fernando, La Union (as Phase III), and finally to Laoag, Ilocos Norte and to San Jose City (as Phase IV), and hereinafter referred to as the "Project." The said Joint Venture Agreement also provided for the establishment and incorporation of Northrail, initially a wholly owned corporation of BCDA, the primary purpose of which, among others, is to construct, operate and manage a railroad system to serve Northern and Central Luzon; and to develop, construct, manage, own, lease, sublease and operate establishments and facilities of all kinds related to the railroad system. On February 6, 1996, pursuant to an amendment to the Joint Venture Agreement, as discussed above, DMCI/PDI was included as a strategic partner to the project on the basis of its qualifications for the implementation of the Project. Consequently, on February 8, 1996, the partners in the Joint

Venture Agreement, including DMCI/PDI, entered into a Memorandum of Agreement to set up the mechanics for raising the seed capitalization needed by Northrail to accelerate the implementation of the Project. The amounts contributed by the joint venture partners are committed to be converted into equity when Northrail is privatized. As of December 31, 1996, DMCI/PDI has already contributed ₱300 million to Northrail. Such contribution is presented under “Deposits on future subscriptions” in the “Investments” account in the consolidated balance sheets.

On December 22, 1995, the Board of Directors approved the sale of the Company’s investment in the shares of stock of Asia Industries of Cebu, Inc. and Asia Industries (Mindanao), Inc. to Dacon Corporation for an aggregate value of about ₱5 million.

9. Property, Plant and Equipment

Property, plant and equipment consisted of:

	1996	1995
Land and improvements (see Note 11)	₱321,952,182	₱152,416,350
Leasehold improvements	11,283,008	7,212,633
Buildings and building improvements	41,779,814	34,563,079
Construction equipment and tools	1,849,730,366	929,000,332
Transportation equipment	107,736,918	90,907,351
Machinery and other equipment	12,472,063	10,589,589
Office furniture, fixtures and equipment	99,831,373	62,419,895
	2,444,785,724	1,287,109,229
Less accumulated depreciation and amortization	719,523,222	455,768,680
	1,725,262,502	831,340,549
Equipment in transit	57,612,506	-
	₱1,782,875,008	₱831,340,549

DMCI sold certain parcels of land and warehouses which are no longer used in its operations and realized a gain of about ₱645 million in 1996 and ₱242 million in 1995. In 1995, DMCI also acquired from affiliated companies certain construction equipment amounting to about ₱22 million. Also in 1995, DMCI sold to affiliated companies certain construction equipment and realized a gain of about ₱11 million.

10. Bank Loans

Bank loans consisted of the subsidiaries’ obligations to local banks which bear interest at prevailing market rates. A portion of these loans totalling to about ₱91 million are secured by joint suretyship agreements by certain stockholders and other affiliated companies.

Interest paid by the Company's subsidiaries for the year ended December 31, 1996 and the ten months ended December 31, 1995 amounted to ₱18,344,763 and ₱28,469,253, respectively, including capitalized interest of ₱19,244,590 in 1995.

11. Loans Payable

Loans payable represent the balance of the obligations of the Company's subsidiaries to various real estate property sellers for the acquisitions of certain parcels of land (see Notes 7, 8, and 9). Under the terms of the deeds of absolute sale covering these acquisitions, these obligations are payable only after certain conditions have been complied with; among others, (a) presentation by the property sellers of the original Transfer Certificates of Title covering the purchased parcels of land; (b) submission of a Certificate of Non-Delinquency of real estate taxes; and, (c) physical turnover of the acquired parcels of land to the Company. As of April 8, 1997, about ₱36.9 million of the payable balance was already paid.

Also, included in this account is a loan payable of PDI amounting to ₱29,578,668 and ₱39,578,668 as of December 31, 1996 and 1995, respectively, which, as stipulated in the terms of the deed of absolute sale between PDI and the seller, shall be paid in proportion to the area of the acquired property which has been cleared by the property owner of all squatters and illegal structures.

12. Income Taxes

As discussed in Note 2, the subsidiaries changed their method of accounting for income taxes from the deferred method to the liability method effective January 1, 1995 required by SFAS No. 23.

The Company's adoption of SFAS No. 23 did not have significant effect on its financial position and results of operations.

The significant components of the Company and its subsidiaries' net deferred income tax liability represent the tax effects of the following:

	1996	1995
Excess of book over tax income which pertained to uncompleted construction contracts	₱480,867,554	₱256,582,843
Deferred selling expenses	823,415	335,232
Custom duties on inventories- net	635,802	518,486
Allowance for doubtful accounts	(48,595,131)	(1,198,572)
Excess of tax over book real estate revenues	(29,594,399)	(3,632,913)
Allowance for decline in value of marketable equity securities	(6,932,262)	-
Allowance for inventory obsolescence	(3,251,285)	(9,342,307)
Unamortized past service cost contribution	(955,345)	(752,970)
Unrealized foreign exchange gain (loss)	(109,104)	4,666,031
	₱392,889,245	₱247,175,830

Income taxes paid by the Company and its subsidiaries for the year ended December 31, 1996 and the ten months ended December 31, 1995 amounted to ₱294,767,340 and ₱105,545,487, respectively.

The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of income for the year ended December 31, 1996 and the ten months ended December 31, 1995 follows:

	1996	1995
Provision for income tax computed at the statutory income tax rate of 35%	₱530,271,596	₱265,798,726
Increase (reduction) in income tax expense resulting from:		
Interest income subjected to final tax at a lower rate	(52,177,526)	(6,695,097)
Nontaxable equity in net earnings of unconsolidated affiliates	(25,593,154)	(7,971,015)
Dividend income exempt from income tax	(1,589,380)	(20,275)
Others- net	786,230	3,430,136
Provision for income tax	₱451,697,766	₱254,542,475

13. Related Party Transactions

Starting January 1, 1996, the Company has management agreements with its wholly owned subsidiary companies, DMCI and PDI wherein which the Company renders general and special management services to DMCI and PDI for a fee. These agreements are effective for a period of five (5) years, renewable for another five (5) years upon mutual agreement of the contracting parties. The total management fees received by the Company pursuant to the agreements was eliminated from the accounts in the process of consolidation.

PDI has joint venture agreements with URPHI covering the development of three (3) real estate projects. Under the terms of the agreements entered into by the parties, PDI shall contribute certain parcels of land which URPHI shall develop into high-rise, mixed used condominiums. The total committed contributions by URPHI under such agreements amounted to about ₱271 million. As of December 31, 1996, URPHI's cash advances for the development of these projects amounted to about ₱146 million.

In the ordinary course of business, the Company had transactions with its affiliated companies primarily consisting of operating advances, purchases of materials, contract jobs, rentals of equipment, warehouse and office spaces, sale and exchanges of properties (see Note 9), dealership and sales agreements, and guaranty of certain credit facilities (see Note 10).

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

14. Retirement Plan

The Company's subsidiaries have tax-qualified and noncontributory retirement plans covering substantially all of their regular employees. Total retirement cost charged to operations amounted to about ₱763,000 in 1996 and ₱5.4 million in 1995 (including amortization of past service cost of ₱3.3 million in 1995).

15. Capital Stock

Initial Public Offering

On August 17, 1995, the SEC authorized the Company to offer for sale to the public, in an initial public offering, 306,747,000 primary shares representing 34% of its outstanding capital stock and 76,687,000 secondary shares, both at an offer price of ₱9.12 per share. The shares were listed with the PSE on December 18, 1995.

The excess of the offer price over the par value of the Company's shares of stock, net of the cost related to the initial public offering amounting to ₱2,373,452,402 was credited to the "Additional paid-in capital" account in the consolidated balance sheets.

Convertible Preferred Shares Offering

On September 17, 1996, the stockholders approved the conversion of 100,000,000 unissued common shares of the Company to 100,000,000 redeemable, convertible, non-voting, non-participating, and cumulative preferred shares, both at a par value of ₱1.00 each. Such conversion was approved by SEC on September 27, 1996, thereby amending Article VII (on Authorized Capital Stock) of the Company's Articles of Incorporation. Also on September 17, 1996, the Board of Directors approved the offer, issuance, and sale of up to 2,400,000 preferred shares, with a par value of ₱1.00 per shares out of the unissued authorized capital stock of the Company subject to, among others, the following terms and conditions, as subsequently amended in Board of Directors' resolutions dated January 17 and 21, 1997: (a) the preferred shares shall be offered at an issue price of ₱1,000 per share; (b) the shares shall bear dividends at the following rates, payable semestraly in arrears and in cash, with the first dividend payment to commence at the end of the first semester from the date of the issuance of the shares (the "Issue Date"): Year 1, 4.0%; Year 2, 5.0%; and Years 3 to 5, 7.2% p.a.; (c) the shareholder may convert the preferred shares to common shares to be issued by the Company from its unissued authorized capital stock, commencing on the sixth (6th) month from Issue Date and ending thirty (30) calendar days before Final Redemption Date at a conversion price computed at the average market price of the common shares as traded at the Philippine Stock Exchange (PSE) for a period of fifteen (15) consecutive trading days immediately preceding one (1) day prior to the start of the Offer Period, plus a conversion premium of ten percent (10%), subject to certain adjustments due to the occurrence of certain events; and, (d) unless previously redeemed, purchased, cancelled, or converted, the preferred shares shall be redeemed by the Company at the end of five (5) years from the Issue Date. Early redemption is also allowed under certain terms and conditions as stipulated in the resolution.

On January 31, 1997, the SEC authorized the Company to offer in a primary offering 2,400,000 preferred shares due April 7, 2002 (Final Redemption Date), with a par value of ₱1.00 per share at an issue price of ₱1,000 per share. Likewise, on February 13, 1997, the SEC also licensed the issuance of the underlying 150,000,000 unissued common shares with a par value of ₱1.00 per share or an aggregate value of ₱150 million which will be subsequently issued upon the exercise by the preferred shareholders of their right to conversion.

The preferred shares were listed with the PSE on April 7, 1997.

16. Commitments

In line with the Company's strategic expansion and rationalization of its core and related businesses, the Company and its subsidiaries' major commitments for equity investments as of December 31, 1996 are as follows:

Semirara Coal Corporation (Semirara)

On March 6, 1997, the Company executed a Second Sale and Purchase Agreement with Voest-Alpine Machinery, Construction & Engineering GmbH (VA MCE), an Austrian limited liability company, superseding an earlier agreement on January 17, 1997. Under the terms stipulated in the revised agreement, as subsequently amended on March 24, 1997, the Company agreed to purchase from VA MCE and VA MCE agreed to sell to the Company 50,324,378,294 shares with a par value of ₱0.01 per share representing approximately 40% of the outstanding common stock of Semirara, VA MCE's loans receivable from Semirara amounting to Austrian Schillings (ATS) 928,800,646, and VA MCE's trade receivables from Semirara amounting to ATS48,000,000, subject to the fulfillment of certain conditions, among which being the approval by the stockholders of Semirara of the conversion of such portion of the loans receivable in the amount of ₱250,000,000 so that the Company, after said conversion and the assignment to it of the shares, shall hold approximately 75% of the outstanding common stock of Semirara. In consideration for such shares, loans receivable, and trade receivables, the Company agreed to pay VA MCE the total amount of ₱940,000,000, of which amount ₱410,000,000 represents the price of the shares, ₱495,000,000 represents the price of the loans receivable, and ₱35,000,000 represents the price of the trade receivables, payable as follows: (a) ₱150,000,000 initial payment shall be due upon presentation of a copy of the approval of the SEC of a petition of Semirara for the increase in its authorized capital stock, reflecting therein the conversion of a portion of the loans receivable in the amount of ₱250,000,000 into common shares in favor of the Company; and, (b) the balance of ₱790,000,000 shall be due on the eighteenth (18th) month from the date of execution of the agreement.

On March 25, 1997, the Company, pursuant to the said agreement as amended, caused the issuance by a local bank of two confirmed, irrevocable standby letters of credit in favor of VA MCE amounting to ₱150 million and ₱790 million, respectively, to secure the payments of the Company's obligations to VA MCE under the agreement. These letters of credit are likewise secured by a Deed of Suretyship executed on March 20, 1997 by the Company solidarily with DMCI, in favor of the said local bank.

Subic Water and Sewerage Company, Inc. (Subic Water)

On November 24, 1996, a Joint Venture Agreement was entered into by and among PDI/DMCI, Subic Bay Metropolitan Authority, a government corporation, Olongapo City Water District, and Biwater International Limited, a company organized under the laws of England, primarily to establish and operate Subic Water, a company which will engage in the provision, establishment, operation and maintenance of water and sewerage facilities and systems in the Subic Special Economic and Free Port Zone. Under the terms of the agreement, the total initial authorized capital stock of Subic Water shall consist of ₱250,000,000 consisting of 25,000,000 shares with a par value of ₱10.00 per share, of which the total initial subscribed and paid-up capital within three years from the effective date of the agreement (defined in the Joint Venture Agreement to be the date on which certain conditions stipulated in the agreement shall have been complied with) shall be ₱187,200,000. As provided for in the said Joint Venture Agreement, the PDI/DMCI shall have an equity participation equivalent to 40% in Subic Water which amounts to ₱74,880,000 based on the foregoing initial subscribed and paid up capital. The PDI/DMCI's initial capital contribution to Subic Water is payable as follows: (a) ₱16,623,200 payable one month prior to the parties' best estimate of the effective date of the agreement (such amount was already paid as of December 31, 1996 and presented as part of "Advances to Real Estate Joint Ventures" in the "Investments" account of the consolidated balance sheets); (b) ₱17,072,800 payable on or before the first anniversary of the said effective date; and, (c) ₱41,184,000 on or before the second anniversary of the said effective date.

MTLCI

In accordance with the subscription agreement dated November 15, 1996 executed between PDI and MTLCI with the consent of Landco Asset Management, Inc. and Metro Pacific Corporation, PDI subscribed to 785,714 shares out of the unissued capital stock of MTLCI for a total subscription price of ₱330 million. As of December 31, 1996, PDI had already paid ₱60 million of the subscription price with the remaining balance of ₱270 million to be paid in three (3) equal annual installments of ₱90 million each up to 1999.

Others

In the ordinary course of its business operations, PDI has existing joint venture agreements with various parties, the primary purpose of which is to undertake certain property development projects. Under the terms of these agreements, PDI is committed to make equity contributions and/or share in the total estimated development costs of the projects. As of December 31, 1996, the total estimated balance of PDI's committed contributions, relative to these types of agreements amounted to about ₱423 million.

The Company and its subsidiaries lease a portion of their office premises, renewable under such terms and conditions that may be agreed upon with the lessors. The approximate minimum annual rentals on such leases after December 31, 1996 are not material to the Company and its subsidiaries' results of operations.

17. Contingencies

There are pending legal cases against the subsidiaries as of December 31, 1996 which are being contested by the subsidiaries and their legal counsels. The subsidiaries and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements.

DMCI is contingently liable for guarantees arising in the ordinary course of business, including letters of guarantee for performance, surety and warranty bonds for various construction projects amounting to about ₱13.8 billion as of December 31, 1996.

As of December 31, 1996, unused letters of credit for various importations of equipment and spare parts amounted to about ₱170 million.

One of the real estate properties which PDI contributed to the joint ventures with URPHI (see Note 13) is subject to court cases outstanding as of December 31, 1996. These cases involve third party complainants seeking to annul an order dated August 21, 1995, and the Writ of Possession dated August 28, 1995 in a certain court case, issued by a certain public respondent in favor of the Philippine National Bank (PNB), the seller of real estate property. The said order granted PNB's Petition for the Issuance of an Alias Writ of Possession, thereby placing the said property in PNB's possession which the Company subsequently purchased from PNB. As of April 8, 1997, most of the cases were already dismissed by the court notwithstanding appeal by the complainants to a higher court. Moreover, the Deed of Absolute Sale (DAS) between PNB and the Company covering the said real estate property provided that in the event that the court renders a final adverse judgment against PNB, then the DAS shall be rescinded and PNB shall reimburse the Company for the purchase price without interest.

OUT

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW
INFORMATION**

Cash paid during the year for:

Income tax	₱294,767,340	₱105,545,487
Interest (including capitalized interest of ₱19,244,590 in 1995)	18,344,763	28,469,253

**SUPPLEMENTAL DISCLOSURE OF NONCASH
INVESTING ACTIVITIES**

The Company acquired additional equity investments totalling to ₱881,039,048 in 1996 and ₱247,250,000 in 1995, the subscriptions payable of which amounted to ₱298,750,000 and ₱125,237,500 as of December 31, 1996 and 1995, respectively.

In 1996, the Company acquired certain parcels of land, the unpaid portion of which amounting to ₱56,478,365 was recognized as loans payable.