

SECRETARY'S CERTIFICATE

I, **NOEL A. LAMAN**, of legal age, Filipino and with office address at the 4th Floor, The Valero Tower, 122 Valero Street, Salcedo Village, Makati City, after being sworn to in accordance with law, do hereby certify that:

1. I am the Corporate Secretary of **DMCI HOLDINGS, INC.** (the "Corporation"), a corporation organized and existing under and by virtue of the laws of the Republic of the Philippines, under SEC Certificate of Registration No. AS095-002283 with principal office address at 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue., Makati City.
2. The information contained in the hardcopy of the SEC 20-IS or the Definitive Information Statement and that contained in the disk are one and the same.
3. I am executing this certification to attest to the truth of the foregoing and in compliance with the reportorial requirements of the Securities and Exchange Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature this ____ day of _____ 2004 at Makati City.

NOEL A. LAMAN
Corporate Secretary

SUBSCRIBE AND SWORN to before me this _____ day of _____, 2004 affiant exhibiting to me his/her Community Tax No. 15233853 issued at Makati City on February 11, 2004.

Notary Public

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Page No. _____
Book No. _____
Series of 2004

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

**TO: ALL STOCKHOLDERS
DMCI HOLDINGS, INC.**

Please be notified that the annual meeting of stockholders of DMCI Holdings, Inc. ("DMCI-HI") will be held on July 28, 2004, Wednesday, at 9:00 a.m. at the Fairways Function Room, Manila Golf and Country Club, Forbes Park, Makati City. Following is the Agenda for the meeting:

1. Call to Order
2. Report on Attendance and Quorum
3. Approval of Minutes of Annual Stockholders Meeting held on August 27, 2003.
4. Management Report for the year 2003
5. Ratification of all acts of the Board of Directors and Management for the period August 28, 2003 to date.
6. Appointment of Independent Auditor
7. Election of the Members of the Board of Directors
8. Such other business as may properly come before the meeting
9. Adjournment.

The record date for the determination of stockholders entitled to notice of and to vote at the annual stockholders' meeting is on June 14, 2004.

Should you be unable to attend the meeting in person, but would like to be represented, please accomplish the proxy form attached hereto and submit the same to the Corporate Secretary c/o DMCI Holdings, Inc., 3rd Floor, Dacon Building, 2281 Pasong Tamo Ext., 1231 Makati City, Metro Manila.

On the day of the meeting, you are requested to bring this Notice and any form of identification to facilitate registration. Registration will start at 8:15 a.m. and will close at 8:45 a.m.

Makati City, Metro Manila
June 16, 2004

For the Board of Directors

NOEL A. LAMAN
Corporate Secretary

PROXY

DMCI HOLDINGS, INC.

PROXY SOLICITED ON BEHALF OF THE MANAGEMENT OF DMCI HOLDINGS, INC. FOR THE ANNUAL STOCKHOLDERS' MEETING ON JULY 28, 2004, WEDNESDAY, 9:00 A.M., AT THE FAIRWAYS FUNCTION ROOM, MANILA GOLF AND COUNTRY CLUB, FORBES PARK, MAKATI CITY.

The Undersigned hereby appoints:

- a) The Chairman of the Board of Directors of **DMCI HOLDINGS, INC.** or in his absence, the President of **DMCI HOLDINGS, INC.**
b) _____

as his/her/its Proxy to attend the above annual meeting of the stockholders of **DMCI HOLDINGS, INC.** and any adjournment or postponement thereof, and thereat to vote all shares of stock held by the undersigned as specified below and on any matter that may properly come before said meeting.

Management recommends a vote on the following four (4) items and my vote is respectively indicated below:

1. Approval of minutes of previous meeting.

For Against Abstain

2. Ratification of the acts of the Board of Directors and officers.

For Against Abstain

3. Approval of Selection of SyCip Gorres Velayo & Co. as Independent auditors.

For Against Abstain

4. Election of the Members of the Board of Directors

1. DAVID M. CONSUNJI
2. CESAR A. BUENAVENTURA
3. ISIDRO A. CONSUNJI
4. JORGE A. CONSUNJI
5. VICTOR A. CONSUNJI
6. MA. EDWINA C. LAPERAL
7. HERBERT M. CONSUNJI
8. EVARISTO T. FRANCISCO
9. OSCAR S. REYES

In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting.

This proxy when properly executed will be voted in the manner directed above by the undersigned stockholder. If no direction is made, this proxy will be voted for items 1, 2, 3 and 4.

Date

(Signature above printed name, including title when signing for a corporation or partnership or as an agent, attorney or fiduciary).

No. of shares held: _____

Please mark, sign, date, and return promptly in accompanying envelope.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
 Preliminary Information Statement
 Definitive Information Statement
2. Name of Registrant as specified in its charter: **DMCI Holdings, Inc.**
3. Province, country or other jurisdiction of incorporation or organization: **Philippines**
4. SEC Identification Number: **ASO95-002283**
5. BIR Tax Identification Code: **004-703-376**
6. Address of principal office Postal Code: **3rd Floor, Dacon Building
2281 Pasong Tamo Ext.
1231 Makati City
Metro Manila**
7. Registrant's telephone number, including area code: **(632) 888-3000**
8. Date, time and place of the meeting of security holders: **July 28, 2004, Wednesday
9:00 A.M.
Fairways Function Room,
Manila Golf and Country Club,
Forbes Park, Makati City**
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **July 5, 2004**
10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor: **The Management of the Registrant**

Address and Telephone No.: **3rd Floor, Dacon Building
2281 Pasong Tamo Ext.
1231 Makati City
Metro Manila
(632) 888-3000**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

<u>Title of Each Class</u>	<u>No. of Shares Outstanding</u>	<u>Amount</u>
Common Shares	1,727,747,000	₱1,727,747,000.00
Preferred Shares	239,090	239,090.00
Common Shares	150,000,000	150,000,000.00
TOTAL	1,877,986,090	₱ 1,877,986,090.00

12. Are any or all of Registrant's Securities Listed with the Philippine Stock Exchange?

Yes (x)

No ()

INFORMATION STATEMENT

A. GENERAL INFORMATION

1. *Date, Time and Place of Meeting*

The enclosed proxy is solicited for and on behalf of the Management of **DMCI HOLDINGS, INC.** (hereinafter called the "Corporation" or the "Registrant") for use in connection with the annual meeting of the stockholders to be held on July 28, 2004 (Wednesday), at 9:00 A.M. at the Fairways Function Room, Manila Golf and Country Club, Forbes Park, Makati City.

The definitive information statement and form of proxy will be sent to the stockholders of record as of June 14, 2004 (the "Record Date") on or before July 5, 2004.

The matters to be considered and acted upon at such meeting are referred to in the Notice and are more fully discussed in this statement.

2. *Dissenter's Right of Appraisal*

The dissenter's right of appraisal is not applicable in any of the matters to be submitted to the stockholders.

3. *Interest of Certain Persons in or Opposition to Matters to be Acted Upon*

No director, officer, nominee for director, or their associates, has any substantial interest, direct or indirect, by security holdings or otherwise, on any matter to be acted upon, other than election to office. No director has informed the Registrant in writing of any intention to oppose any action to be taken during the meeting.

B. CONTROL AND COMPENSATION INFORMATION

4. *Voting Securities and Principal Holders thereof*

(a) As of May 31, 2004, the Record Date for the determination of the stockholders entitled to notice and to vote at the annual stockholders' meeting on July 28, 2004, the Registrant has the following outstanding shares:

Common shares (voting)	- 2,255,494,000 shares
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(b) Only holders of Common Shares as of the Record Date shall be entitled to vote in the election of directors in the manner provided hereunder. On the approval of minutes of previous meeting, ratification of all acts of the Board of Directors and officers during the previous year, and appointment of independent auditor, each share of outstanding common stock is entitled to one vote.

(c) In the election of directors, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of common shares of stock standing in his name at record date. A stockholder entitled to vote may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. Provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the whole number of directors to be elected.

Pursuant to the provisions of Article III, Section 2 of the Amended By-Laws of the Corporation, all nominations for the election of directors shall be submitted in writing to the Board of Directors, with the consent of the nominees, at least ten (10) days before the scheduled annual stockholders' meeting.

(d) Security Ownership of Certain Record and Beneficial Owners

The following table sets forth as of **May 31, 2004**, the record and/or beneficial owners of more than 5% of the outstanding Common Shares of the Company which are entitled to vote and the amount of such record and/or beneficial ownership.

<u>Title of Class</u>	<u>Name, Address of Record Owner and Relationship with Issuer</u>	<u>Name and Address of Beneficial Owner and Relationship with Record Owner</u>	<u>Citizenship</u>	<u>Amount/ Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common	PCIB Securities, Inc. 20/F PCIB Tower 1 Dela Rosa St. Makati City	PCIB 20/F PCIB Tower 1 Dela Rosa St. Makati City	Filipino	370,350,955.00	16.42%
Common	Dacon Corporation c/o DMCI Holdings 2281 Pasong Tamo Ext Makati City	Isidro A. consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext Makati City	Filipino	400,359,329.00	17.75%
Common	Victor A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Victor A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Filipino	136,788,100.00	6.06%
Common	Ma. Edwina C. Laperal c/o DMCI Holdings, Inc 2281 Pasong Tamo Ext. Makati City	Ma. Edwina C. Laperal c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Filipino	136,117,710.00	6.03%
Common	Cristina C. Gotianun c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Cristina C. Gotianun c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Filipino	133,841,010.00	5.93%
Common	Isidro A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Isidro A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Filipino	132,545,310.00	5.87%
Common	Jorge A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Jorge A. Consunji c/o DMCI Holdings, Inc. 2281 Pasong Tamo Ext. Makati City	Filipino	130,182,310.00	5.77%

(e) Security Ownership of Management

The table sets forth as of **May 31, 2004**, the record or beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Citizenship</u>	<u>Percent of Class</u>
Common	David M. Consunji	8,142,254.00	Filipino	0.3609%
Common	Cesar A. Buenaventura	200,200.00	Filipino	0.00008%
Common	Isidro A. Consunji	132,545,310.00	Filipino	5.8655%
Common	Ma. Edwina C. Laperal	36,667,710.00	Filipino	6.0646%
Common	Victor A. Consunji	136,788,100.00	Filipino	6.0593%
Common	Jorge A. Consunji	130,182,310.00	Filipino	5.7718%
Common	Herbert M. Consunji	1,600.00	Filipino	0.0001%
Common	Oscar S. Reyes	100.00	Filipino	0.00000004%
Common	Evaristo T. Francisco	100.00	Filipino	0.00000004%
Common	Cristina C. Gotianun	133,841,010.00	Filipino	5.93399%
AGGREGATE OWNERSHIP		678,368,694.00		30.0762%

All the above named directors and officers of the Corporation are the record and beneficial owners of the shares of stock set forth opposite their respective names.

(f) Voting Trust Holders of 5% or more

Registrant is not aware of any person holding more than 5% of the shares of Registrant under a voting trust or similar agreement.

(g) Changes in Control

From January 1, 2003 to date, there has been no change in control of the Registrant since the beginning of its last fiscal year. Neither is Registrant aware of any arrangement which may result in a change in control of it.

5. Directors and Executive Officers

(a) Incumbent directors and Executive Officers. The following are the incumbent directors and executive officers of the Registrant:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Citizenship</u>
David M. Consunji	Chairman of the Board	82	Filipino
Cesar A. Buenaventura	Vice-Chairman of the Board	74	Filipino
Isidro A. Consunji	President/Chief Executive Officer	55	Filipino
Ma. Edwina C. Laperal	Treasurer/Director	43	Filipino
Cristina C. Gotianun	Asst. Treasurer	50	Filipino
Herbert M. Consunji	Chief Finance Officer/Director	51	Filipino
Jorge A. Consunji	Director	51	Filipino
Victor A. Consunji	Director	53	Filipino
Oscar S. Reyes	Director	57	Filipino
Evaristo T. Francisco	Director	76	Filipino
Noel A. Laman	Corporate Secretary	63	Filipino

(b) Term of office as a Director and the period which the person has served

The term of office of the Directors and executive officers is one (1) year from their election as such until their successors are duly elected and qualified.

<u>Name</u>	<u>Position</u>	<u>Period of Service</u>
David M. Consunji	Chairman of the Board	Nine years (1995-2004)
Cesar A. Buenaventura	Vice-Chairman of the Board	Nine years (1995-2004)
Isidro A. Consunji	President/Chief Executive Officer	Nine years (1995-2004)
Ma. Edwina C. Laperal	Treasurer/Director	Nine years (1995-2004)
Cristina C. Gotianun	Asst. Treasurer	Nine years (1995-2004)
Herbert M. Consunji	Chief Finance Officer/Director	Nine years (1995-2004)
Jorge A. Consunji	Director	Nine years (1995-2004)
Victor A. Consunji	Director	Nine years (1995-2004)
Oscar S. Reyes	Director	Three years (2001-2004)
Evaristo T. Francisco	Director	Three years (2001-2004)
Noel A. Laman	Corporate Secretary	Nine years (1995-2004)

(c) Business experience of the Directors Offices during the past five (5) years.

David M. Consunji is the Founder and Chairman of the Board of Directors of D.M. Consunji, Inc. Mr. Consunji is also Chairman of the Board of Directors of Dacon Corporation, Freyssinet Philippines, Inc., Asia Industries, Inc. and Semirara Coal Corporation. Mr. Consunji served as the Secretary of the Department of Public Works, Transportation and Communications from August 1971 to 1975. Awards and recognition received by Mr. Consunji include (i) named Meralco Awardee in Engineering and Applied Sciences, 1994; (ii) recipient of the Civil Engineer Diamond Jubilee Award presented by the University of the Philippines Alumni Engineers in 1988; (iii) One of the Ten Outstanding Civil Engineers in 1982 by the Philippine Institute of Civil Engineers; (iv) recipient of Doctor of Laws, honoris causa, University of the Philippines in 1993; (v) named Outstanding Citizen of the City of Manila for Engineering in 1979; and (vi) named Management Association of the Philippines Awardee in 1996.

Cesar A. Buenaventura, O.B.E., is the Managing Partner of Buenaventura, Echauz and Partners (BEP) Financial Services, a financial advisory firm. He is currently Vice Chairman of DMCI Holdings, Inc.; and of Montecito Properties, Inc.; Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P); and Director of Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, AG&P Company of Manila, Inc., Montecito Properties, Inc., Aurora Properties, Inc., iPeople, Inc., D.M. Consunji, Inc., and Semirara Coal Company. He is the Founding Chairman of Pilipinas Shell Foundation, Inc.; President of the Benigno S. Aquino Foundation; Member of the Board of Trustees of Asian Institute of Management. Mr. Buenaventura served as Chief Executive Officer of the Shell Group of Companies in 1975 until his retirement in 1990. He was appointed Member of the Monetary Board of the Central Bank of the Philippines (representing the Private Sector) and Member of the Board of Directors of the Philippine International Convention Center in 1981, a position he held up to 1987. He was a Member of the Board of Regents of the University of the Philippines from 1987 to 1994. He is a past Director of Philippine National Bank, Ayala Corporation, First Philippine Holdings Corporation, Philippine Airlines, Inc.; and a former Senior Adviser of Jardine Davies, Inc. He was chosen Management Man of the Year in 1985 by MAP and in January 1991, he was personally granted the award of Honorary Officer of the Order of the British Empire by her Majesty Queen Elizabeth II.

Isidro A. Consunji is a Director of D.M. Consunji, Inc.. His other positions include: Chairman of the Board of Directors of Universal Rightfield Property Holdings, Inc., Vulcan Materials Corporation, and Beta Electric Corporation; President of Dacon Corporation, DMCI Project Developers, Inc., and DMCI Holdings, Inc.

Herbert M. Consunji is a Partner in H.F. Consunji & Associates. Mr. Consunji's other positions include: Director of DMCI Project Developers, Inc., Semirara Mining Corporation; Chairman of Subic Water and Sewerage Company, Inc.; Treasurer of Semirara Mining Corporation; Comptroller of D.M. Consunji, Inc.

Jorge A. Consunji is the President of D.M. Consunji, Inc. His other positions include: President of DMC Construction Equipment Resources, Inc., and Royal Star Aviation, Inc.; Chairman of the Board of Directors of Acotec Panel Manufacturing, Inc. and Wire Rope Corp. of the Phils.; Director of DMCI Holdings, Inc. Dacon Corp., Cotabato Timberland Co., Inc., South Davao Development Co., Inc., Semirara Mining Corp., Property Developers, Inc., Freyssinet Phils., Inc. Freyssi-Marketing, Inc., Atlantic Gulf & Pacific Co. – Manila Inc., Vulcan Materials Corp., and Beta Electric Corp.

Evaristo T. Francisco served as a Member of the Board of Director of D.M. Consunji, Inc. from 1988-2001 and held various positions in Pilipinas Shell as Board of Director, Vice President for Marketing, Personnel and Public Affairs, Sales and other overseas work for Shell International Petroleum Co. **Mr. Francisco has served the Company as Independent Director for three years (since 2001).**

Oscar S. Reyes is the former Country Chairman of the Shell companies in the Philippines. He is currently a member of the Board of Directors of Pilipinas Shell Petroleum Corporation and Managing Director of Shell Philippines Exploration B. V. His other positions are: Chairman, Link Edge, Inc., Unicapital Securities Co., Inc., and Actron Industries Inc.; Member, Advisory Board of Phil. Long Distance Telephone Co., and J.G. Summit Holdings, Inc.; Member, Board of Directors of Universal Robina Corporation, CEO's Inc., CBV Asset Management, Global Resources for Outsourced Workers (GROW), Inc., Bank of the Philippine Islands, The Mutual

Fund Co., of the Phils., Inc., Sunlife Prosperity Dollar Advantage Fund, Inc. Peak Systems, Inc. Philippine Electric Corporation, Mindoro Resources Ltd., MRL Gold Phils., Inc., and Level Up, Inc. **Mr. Reyes has served the Company as Independent Director for three years (since 2001).**

Edwina C. Laperal is the Treasurer of DMCI Holdings, Inc., Dacon Corporation and DMCI Urban Property Developers, Inc.; Director of Universal Rightfield Property Holdings, Inc., DMCI Holdings, Inc., DMCI Project Developers, Inc., and D.M. Consunji, Inc..

Victor A. Consunji is the Chairman of the Board of Directors and President of Sirawai Plywood and Lumber Corporation, Prominent Fruits, Inc., and Rubber Industries Corporation of the Philippines. His other positions include: Director of Conbros Shipping Corporation; President of South Davao Development Company, Inc., Eagle Cattle Ranch, Inc., Sirawan Food Corporation, and Semirara Coal Corporation; Director of D.M. Consunji, Inc., Ecoland Properties Development Corporation, and DMC Construction Equipment Resources, Inc., and Vice President of Dacon Corporation.

Cristina C. Gotianun is a Director of Dacon Corporation, D.M. Consunji, Inc. and Kalinan Timber Corporation. Her other positions include: VP for Finance Administrative/Chief Finance Officer of D.M. Consunji, Inc. and General Manager of Sirawan Food Corporation.

Noel A. Laman is the Chairman of the Executive Committee and the Senior Partner of Castillo Laman Tan Pantaleon & San Jose. His other positions include: Chairman of the Board of Directors of Trans-Orient Overseas Contractors, Inc., Manpower Resources of Asia, Inc., and Sealanes Marine Services (each being a part of the DCL group of Companies); Director and Corporate Secretary of Glaxo Wellcome Philippines, Inc, Boehringer Ingelheim (Phils.), Inc., Solvay Pharma Philippines Corporation, and Merck, Inc. He is an active member of the Intellectual Property Association of the Philippines, the Intellectual Property Foundation, the Philippine Bar Association, and as resource person of various foreign chambers of commerce.

Alfredo R. Austria is the President of Hampstead Corp.; Managing Director of DMCI Homes, a division of DMCI Project Developers, Inc., and Senior Manager for Project Development and Management of D.M. Consunji, Inc. He is the former President of Eco Process Equipment, Inc. and Bachy Soletanche Phils. Corp. He also served as Vice President of Rockwell Land Corporation, General Manager of Pt. Royal Sentul Highland of Indonesia, Business Development Head and Assistant Head of Engineering of D.M. Consunji, Inc. from 1981 to 1994.

(d) Independent Directors.

Messrs. Evaristo T. Francisco and Oscar S. Reyes are currently the Corporation's independent directors. Both have served the Corporation as independent directors since 2001.

Messrs. David M. Consunji and Cesar A. Buenaventura nominated Messrs. Evaristo T. Francisco and Oscar S. Reyes, respectively, as candidates for independent directors of the Company.

Under its Manual of Corporate Governance, the Corporation is required to have at least two (2) Independent Directors or such number of Independent Directors as shall constitute at

least twenty (20%) percent of the members of the Board of Director of the Corporation, whichever is lesser. Attached hereto as Schedule 1 is the Final List of Candidates for Independent Directors. The two (2) nominees for Independent Directors were selected by the Board Nomination and Election Committee in accordance with the guidelines in the Manual of Corporate Governance, the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002), and the Guidelines on the nomination and election of Independent Directors (SEC Memorandum Circular No. 16, series of 2002).

(e) Other directorships held in reporting companies naming each company.

David M. Consunji	Chairman of the Board Semirara Mining Corporation
Cesar A. Buenaventura	Director, Semirara Mining Corporation and Petrofields Corporation
Isidro A. Consunji	Chairman of the Board Universal Rightfield Property Holdings, Inc., Vice-Chairman, Semirara Mining Corp.
Jorge A. Consunji	Director, Semirara Mining Corporation
Ma. Edwina C. Laperal	Director Universal Rightfield Property Holdings, Inc.
Herbert M. Consunji	Director, Semirara Mining Corporation

(e) Family Relationship

The family relationship up to the fourth civil degree either by consanguinity or affinity among directors, executive officers or persons nominated or chosen by the Corporation to become directors or executive officers is stated below:

<u>Name</u>	<u>Relationship</u>
David M. Consunji	Father of Isidro A. Consunji, Jorge A. Consunji, Victor A. Consunji and Ma. Edwina C. Laperal
Isidro A. Consunji, Jorge A. Consunji, Victor A. Consunji, and Ma. Edwina C. Laperal	Children of David M. Consunji
Herbert M. Consunji	Nephew of David M. Consunji and cousin of Isidro A. Consunji, Jorge A. Consunji, Victor A. Consunji and Ma. Edwina C. Laperal

(f) No Involvement in Legal Proceedings

Except for the following, none of the directors, executive officers and nominees for election is subject to any pending material legal proceedings.

(1) Mr. Isidro A. Consunji

People v. Consunji, et al.
Criminal Case No. Q-02-11452
Regional Trial Court, Quezon City, Branch 78

This involves a complaint for violation of Article 315 (2) (a) of the Revised Penal Code ("RPC"), as qualified by Presidential Decree ("PD") No. 1689. Complainants claim to have been induced to buy shares of stock of Universal Leisure Corporation ("ULC"), on the representation that the latter shall develop a project known as "network of 5 world clubs." ULC, however, failed to develop the project. Mr. Isidro A. Consunji's involvement in this case was pursuant to his being the current Chairman of the Board of Directors of ULC and of Universal Rightfield Property Holdings, Inc. ("URPHI"), the mother corporation of ULC.

A motion for reconsideration dated January 10, 2003 was filed before the Quezon City Prosecutor's Office, which is still pending resolution. A motion to suspend proceedings dated May 8, 2003 was likewise filed with the court, which motion also pends resolution. No arraignment has yet been held in this case.

People v. Consunji, et al.
Criminal Case No. 125186
RTC, Pasig City, Branch 160

This involves a complaint for violation of Article 315 (1) (b) and (2) (a) of the RPC, based on substantially the same set of facts discussed above. The private complainant in this case has already executed an affidavit of desistance dated January 24, 2003. Hence, accused filed a Motion to Dismiss on March 23, 2003. At the pre-trial conference held on June 10, 2003, however, the court refused to act on accused's motion to dismiss because the private complainant was not present to affirm his affidavit of desistance. Thus, the court required the presence of the private complainant during the next hearing set on August 20, 2003 at 8:30 a.m.

(2) Mr. Isidro A. Consunji and Ms. Ma. Edwina C. Laperal

Reyes, et al. v. Consunji, et al.
IS No. 02-50443-F
City Prosecution Office, Mandaluyong City

This involves a complaint for violation of Article 315 (2) (a), (1) (b), and 316 (2) of the RPC, as qualified by PD 1689, based on substantially the same set of facts mentioned in the case quoted above. Mr. Isidro A. Consunji was implicated as signatory to certain material contracts of ULC while Ms. Edwina C. Laperal was implicated as a director and treasurer of Universal Leisure Club, Inc. ("ULCI"). In a Resolution dated November 27, 2002, the complaint was dismissed. Hence, the complainants filed a motion for reconsideration dated January 15, 2003, which respondents opposed on

February 7, 2003. To date, complainant's motion for reconsideration is still pending resolution.

Rodriguez v. Consunji, et al.
IS No. 02-50918
City Prosecution Office, Mandaluyong City

This involves a complaint for violation of Article 315 (1) (b) of the RPC, as qualified by PD 1686, based on substantially the same set of facts discussed above. Mr. Consunji and Ms. Laperal were sued in their capacity as directors and officers of ULC and ULCI. In a Resolution dated November 20, 2002, the complaint was dismissed. Hence, complainant filed a motion for reconsideration dated January 14, 2003, which motion still pends resolution.

Gonzales v. Consunji, et al.
IS No. 03-6480
City Prosecution Office, Quezon City

This involves a complaint for violation of Article 315 (2) of the RPC, based on substantially the same set of facts set forth above. On June 16, 2003, respondents filed their counter-affidavits before the public prosecutor. Since complainants opted not to file a reply, the case is now submitted for resolution.

(g) Significant employees

The following are the significant employees of the Registrant who are not executive officers but who are expected by Registrant to make a significant contribution to the business:

Significant Employees	Position held in Registrant	Age
Ma. Luisa C. Austria	Administrative / Accounting Officer	53
Aldric G. Borlaza	Finance Officer	26

(h) Business experience of the significant employees of the Registrant for the last five years:

Ma. Luisa C. Austria is a former Accounting Supervisor of D. M. Consunji, Inc. (1989 to 1996). She is now the Administrative/ Accounting Officer of registrant and has been holding said position for eight (8) years.

Aldric G. Borlaza worked for three (3) months in SGV, Assurance or External Audit group, involving basic audit of accounting controls, documents and paper trail as well as basic preparation of Audited Financial Statements (January 2002 to March 2002).

(i) Certain Relationships and Related Transactions

There has been no transaction or proposed transactions for the last two (2) years, to which the Corporation was or is to be a party, in which any of the directors, executive officers or nominees for directors has direct or indirect material interest.

6. Compensation of Directors and Executive Officers**ANNUAL COMPENSATION**

<u>Name</u>	<u>Principal Position</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other annual compensation</u>
David M. Consunji	Chairman of the Board of Directors			
Cesar A. Buenaventura	Vice - Chairman of the Board of Directors			
Isidro A. Consunji	President/Chief Executive Officer			
Cristina C. Gotianun	Asst. Treasurer			
Ma. Edwina C.Laperal	Treasurer			
Herbert M. Consunji	Chief Financial Officer			
Alfredo R. Austria	Vice-President for Business Development			
	YEARS			
	2002	₱ 11,039,400.00	₱ --	₱ 150,000.00
	2003	₱ 11,039,400.00	₱ --	₱ 150,000.00
	2004*	₱ 11,039,400.00	₱ --	₱ 150,000.00
	TOTAL:	₱ 33,118,200.00	₱ --	₱ 450,000.00
	YEARS			
All other directors and executive officers as a group unnamed	2002	₱ 3,227,500.00	₱ --	₱ 60,000.00
	2003	₱ 3,277,500.00	₱ --	₱ 60,000.00
	2004 *	₱ 3,277,500.00	₱ --	₱ 60,000.00
	TOTAL:	₱ 9,682,500.00	₱ --	₱ 180,000.00

* Approximate figures.

There is no contract covering their employment with the Corporation and they hold office by virtue of their election to office. The Company has no agreements with its named executive officers regarding any bonus, profit sharing, pension or retirement plan.

There are no outstanding warrants, options, or right to repurchase any securities held by the directors or executive officers of the Company.

7. Independent External Auditor

- (a) The auditing firm named below will be recommended to the stockholders for appointment as the Registrant's principal accountant for the ensuing fiscal year. Conformably with SEC Memorandum Circular No. 8, series of 2003, the handling partner, Ms. Jessie Cabaluna, will be the engagement partner until year 2004.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
Makati City, Metro Manila

- (b) SyCip Gorres Velayo & Co. was the same principal accountant of the Registrant for the fiscal year most recently completed (December 31, 2003).
- (c) Representatives of SGV & Co. are expected to be present at the stockholders' meeting; they will have the opportunity to make a statement if they desire to do so; and they are expected to be available to respond to appropriate questions.

C. OTHER MATTERS

8. Amendments of Charter, By-Laws and Other Documents

The Company is currently studying the amendments to the Company's Amended By-Laws, including the procedure for the nomination and election of independent directors.

9. Summary of matters to be presented to stockholders

- (a) Approval/ratification of the minutes of the annual meeting of stockholders held on August 27, 2003. Approval of said minutes shall constitute confirmation of all the matters stated in the minutes, namely: (i) ratification of all acts of the Board of Directors for the year 2002-2003; (ii) appointment of Sycip Gorres Velayo & Co. as independent auditor; and (iii) election of members of the Board of Directors for 2003-2004.
- (b) Resolutions, contracts, and acts of the board of directors and management for ratification refer to those passed or undertaken by them during the year and for the day to day operations of the Company as contained or reflected in the attached annual report and financial statements. Such resolutions and acts of management include the approval of the manuals on corporate governance and anti money-laundering.
- (c) Selection of SyCip Gorres Velayo & Co. as independent auditors.
- (d) Election of Directors

Election of a Board of nine (9) directors, each of whom will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified. The nominees for directors are:

DAVID M. CONSUNJI
 CESAR A. BUENAVENTURA
 ISIDRO A. CONSUNJI
 JORGE A. CONSUNJI
 VICTOR A. CONSUNJI
 MA. EDWINA C. LAPERAL
 HERBERT M. CONSUNJI
 EVARISTO T. FRANCISCO
 OSCAR S. REYES

All of the above nominees are currently directors of the Corporation.

The two (2) *Independent Directors*¹ of the Corporation within the purview of Section 38 of the Securities Regulation Code are Messrs. Evaristo T. Francisco and Oscar S. Reyes.

10. Voting Procedures

(a) ***Approval/ratification of the minutes of the annual stockholders' meeting held on August 27, 2003.***

- (1) Vote required: A majority of the outstanding common stock present in person or by proxy constituting a quorum.
- (2) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote.

(b) ***Ratification of the acts of the Board of Directors and Officers***

- (1) Vote required: A majority of the outstanding common stock present in person or by proxy constituting a quorum.
- (2) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote.

¹ An "*Independent Director*" shall mean a person other than an officer or employee of the Corporation or its subsidiaries, or any other individual having a relationship with the Corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

(c) Appointment of Independent External Auditors

- (1) Vote required: A majority of the outstanding common stock present in person or by proxy constituting a quorum.
- (2) Method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote each.

(d) Election of Directors

- (1) Vote required. The nine (9) candidates receiving the highest number of votes shall be declared elected.
- (2) Method by which votes will be counted. **Cumulative Voting.** Under this method of voting, a stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing in his own name on the stock books of the Corporation as of the Record Date, and said stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit.

INFORMATION REQUIRED IN A PROXY FORM**11. Opposition to Matters to be Acted Upon**

No director has informed the Registrant in writing of any intention to oppose any action to be taken during the meeting.

12. Revocability of Proxy

Any stockholder who executes the proxy enclosed with this statement may revoke it at any time before it is exercised. No formal procedure is specified for such revocation. Shares represented by an unrevoked proxy will be voted as authorized by the stockholder.

13. The form shall be accomplished in writing and shall be validated by the Registrant's Stock and Transfer Agent through confirmation of status as a stockholder of record, number of shares held, and authenticity of the signature appearing therein. When the proxy is properly executed, the same shall be voted in the manner directed by the undersigned stockholder. If no direction is made, the proxy will be voted for all matters to be presented to the stockholders.

14. Persons Making the Solicitation

The solicitation is made by the Registrant through the use of mail and personal delivery. The Registrant will shoulder the cost of solicitation.

Management does not intend to bring any matter before the meeting other than those set forth in the Notice of the annual meeting of stockholders and does not know of any matters to be brought before the meeting by others. If any other matter does come before the meeting, it is the intention of the persons named in the accompanying proxy to vote the proxy in accordance with their judgment.

ACCOMPANYING THIS INFORMATION STATEMENT ARE COPIES OF THE (1) NOTICE OF THE ANNUAL STOCKHOLDERS' MEETING CONTAINING THE AGENDA THEREOF; (2) PROXY FORM; AND (C) THE COMPANY'S ANNUAL REPORT.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on June 30, 2004.

By:

DMCI Holdings, Inc.

NOEL A. LAMAN
Corporate Secretary



MANAGEMENT REPORT

DMCI HOLDINGS, INC.
Pursuant To SRC Rule 20 (4)

THE CORPORATION WILL PROVIDE WITHOUT CHARGE TO EACH PERSON SOLICITED, ON THE WRITTEN REQUEST OF ANY SUCH PERSON, A COPY OF THE CORPORATION'S ANNUAL REPORT ON SEC FORM 17-A. SUCH WRITTEN REQUEST SHOULD BE DIRECTED TO THE CORPORATE SECRETARY, ATTY. NOEL A. LAMAN C/O 3RD FLOOR, DACON BUILDING, 2281 PASONG TAMO EXTENSION, MAKATI CITY. A CHARGE MAY BE MADE FOR EXHIBITS PROVIDED SUCH CHARGE IS LIMITED TO REASONABLE EXPENSES INCURRED BY THE CORPORATION IN FURNISHING SUCH EXHIBITS.

A. Incorporated herein is the Audited Annual Financial Statements 2003, First Quarter Financial Results as of March 4, 2004, and Statement of Management's Responsibility.

B. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change or disagreements with certifying accountants.

**C. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION
(Audited Financial Statements as of December 31, 2003)**

I. Results Of Operations

DMCI Holdings, Inc. & subsidiaries (the Company) reported a net income of P196 million in 2003, compared to a net loss P222 million in 2002, and a net income of P16 million in 2001. The Company's greatly improved consolidated operations are mainly attributed to its core business-Construction and the significant growth in the Coal Mining business.

Construction

The general improvement in the construction industry was present as the Company's construction segment, operated by wholly-owned flagship construction company, D.M. Consunji, Inc. (DMCI), provided positive returns of P112 million in 2003, greatly improving from the losses of P232 million in 2002 and marginal returns of P34 million in 2001.

Increased construction activity for 2003 was experienced by DMCI with major projects (secured towards the end of 2002): KAMANAVA floodway project, SM Dasmariñas, and the Shang Grand Tower, contributing significantly to the rise in construction revenues of P1.9 billion in 2003 from P1.3 billion in 2002 (P2.3 billion in 2001). Construction gross margin was up to 10% in 2003 from 1.6% and 8% in 2002 and 2001 respectively, due to notable additional works incurred in 2002 that were not approved by the contract owner hence the booking of revenues were deferred due to conservatism. Management's consistent efforts to reduce cost is apparent as operating expenses in the construction segment reduced from P476 million and P345 million in 2002 and 2001 respectively to P334 million in 2003. The significant increase in income tax benefit can be attributed to past due receivables from projects accounted under the completed contract method deemed difficult to collect. In addition, DMCI's share as developer and owner of certain Real Estate Development projects provided additional profit to the DMCI bottom line (see Real Estate and Infrastructure Development).

DMCI income significantly grew from a negative P241 million in 2002 and a positive P36 million in 2001 to a positive P131 million in 2003.

Management believes that the realignment and decentralization of functions implemented in 2002 was a great factor in empowering DMCI business operations, which contributed greatly to the Company's improvement in the construction segment.

Real Estate & Infrastructure Development

The Company's gear towards housing is evident with the release of various new housing projects in 2003: Vista De Lago, a mid-rise condominium housing project located in Taguig; Spring Lanes, a small subdivision project located in Taguig; and Villa Alegre, a subdivision project located in Carmona Cavite. These projects and existing projects: Lakeview Manors Condominiums (Lakeview), East Ortigas Mansions (EOM), Hampstead Gardens (Hampstead) and Morning Sun Homes (Morning Sun) are offered by the Company to the middle income Filipinos.

Consolidated real estate sales for 2003 amounting to P470 million was up by 43% from 2002 and 36% from 2001 due mainly to the favorable take up of the new projects and the continued sales of the existing projects. Although there is an increase revenues in the housing segment, net contributions from the Real Estate business for 2003 was a negative P24 million, compared to positive contributions of P41 million and P58 million in 2002 and 2001 respectively.

Real estate projects of DMCI Project Developers, Inc. (PDI), the Company's wholly-owned real estate and infrastructure development subsidiary, include: East Ortigas Mansions (EOM), Morning Sun Homes (Morning Sun), Spring Lane, Hampstead Gardens (Hampstead). Sales in Morning Sun of P9 million in 2001 increased to P50 million in 2002, and simmered down to P36 million for 2003, as most units were sold. On the other hand, EOM (launched in 2002) added greatly enhanced sales of P145 million in 2003, from P19 million in 2002. Hampstead, the first housing project of the group launched in 2001 reported sales amounting to P122 million for 2003, 76% higher than 2002 but 32% lower than 2001, coming mainly from sales of units in the newly constructed Molave tower. Despite increased revenues, PDI and the Company suffered undesired bottom line figures on the account of increased operating expenses resulting from initial requirements needed to meet the growing demand of developing and selling existing and future real estate projects.

Projects booked in DMCI include existing project: Lakeview, and new projects: Vista De Lago and Villa Alegre. Although most units in Lakeview have been sold, sales from the newly completed Manhattan building provided decent revenue levels for 2003 amounting to P101 million compared to P189 million in 2002 and P151 million in 2001.

With the now visible growth in the Real Estate and Housing sector, the Company remains committed in its drive to become a leader in providing quality affordable houses to middle-income Filipinos.

Coal Mining

The Company's coal mining business continued to thrive as 74%-owned publicly-listed Semirara Mining Corp. (SMC) posted a significant net income of P138 million for 2003 compared to the net income of P6 million in 2002 and a net loss of P22 million in 2001. Refined mining operations and consistent marketing of Semirara coal proved beneficial to the SMC's sustained growth.

Mining operations for 2003 yielded a historical best of 2 million MT run-of –mine coal, for a 26% and 65% increase in coal production in 2002 and 2001 respectively. Significant efforts to consistently better equipment performance through strengthened maintenance and improved usage induced the sustained increase in coal production. In addition, maintained coal quality enhancement programs set by SMC in 2002 also contributed in providing better coal production.

SMC's coal sales increased to P 1.79 billion in 2003, from P1.52 billion in 2002 and P1.36 billion in 2001. 2003 volume sales to NPC surged by 18% for both 2002 and 2003, as SMC was able to provide regular deliveries to NPC-Masinloc Power Plant and maintain increased deliveries in the existing NPC-Calaca Power Plant. Moreover, sales to other customers drastically increased for the three years (48 thousand MT in 2001, 161 thousand MT in 2002, 442 thousand in 2003), attributed to the aggressive efforts to reduce dependency on a single market (NPC) resulting with substantial sales to Toledo Power Corp, APO Cement, and PHILPHOS. Coal sales gross margin for 2003 heightened to 29.6% from 22.5% in 2002 and 23.18% in 2001 because of the higher price brought about by better coal quality and lower costs from improved production. Interest Expense for 2003 increased to P266 million from P231 million and P256 million in 2002 and 2001 respectively, as SMC contracted new loans from a foreign supplier and incurred higher interest rates in 2003. Foreign exchange losses of P44 million in 2003 (P34 million in 2002, and P0.5 million in 2001) were due to unrealized losses on foreign currency (US Dollar) denominated loans vis-à-vis peso devaluation vs. the dollar. Bottom line figure for SMC showed promise with a reported net income of P138 million in 2003 with respect to a net income of P6 million in 2002 and a net loss of P22 million in 2001, reflecting the continuing turn around of the Company's coal mining business.

SMC guarantees its commitment to provide better coal quality for its customers, as it gears toward becoming the number one local coal supplier in the country, with the vision to totally eliminate local dependence on imported coal and even export coal to other countries.

II. Financial Condition

In 2002, the Company launched its offer to redeem and retire its issued and outstanding redeemable, convertible preferred shares, which matured in 2002. Although a small number remains in 2003 evident with the significant decrease in capital accounts (Preferred Stock and Additional Paid-In Capital, Preferred shares held in treasury), the Company is still under going negotiations with the remaining shareholders that have not yet formally agreed to the redemption offers.

Receivables decreased due mainly to the Company's drive to improve its collections, especially on its past due and outstanding receivables. Likewise, the Company's efforts to determine and identify past due receivables deemed difficult to collect also accounted for the decrease in receivables.

SMC's continued servicing of its debt decreased the Company's consolidated long-term liabilities. This is evidence of SMC's sustained growth and liquidity. With SMC's current improved credit standing, additional loan facilities were also acquired in 2003, to procure conventional and continuous mining equipment. This in turn accounted for the marginal increase in plant and equipment assets.

Due to the current demand of the Real Estate segment, the Company, through PDI, incurred loans and credit lines for the operational requirements of developing housing projects.

With current positive outlooks in the Real Estate Industry and the Coal Mining Business, coupled by the hope of consistent activity and even growth in the Construction Industry, the Company believes its condition will be towards full recovery and eventual sustained growth.

D. BUSINESS AND GENERAL INFORMATION

DMCI Holdings, Inc. (the "*Company*") was incorporated on March 8, 1995 as a holding company to consolidate all construction business, construction component companies and related interests of the Consunji Family. It was listed on the Philippine Stock Exchange on December 18, 1995.

In only a few years after incorporation, the Company has expanded its business organization to include four major subsidiaries, namely: D.M. Consunji, Inc. (DMCI), DMCI Project Developers, Inc. (PDI), Atlantic Gulf and Pacific Company of Manila, Inc. (AG&P) and Semirara Mining Corporation [(SMC) (formerly Semirara Coal Corporation)].

DMCI, a wholly owned subsidiary, is engaged in general construction services– the Group’s core business. It is also engaged in various construction component businesses such as the production and trading of concrete products and electrical and foundation works. Incorporated and founded in 1954, DMCI is currently one of the leaders in the Philippine construction industry, noted for quality projects delivered on time and its pioneering application of advanced engineering methodology. In addition, DMCI, together with its affiliate PDI, is actively engaged in real estate sales and development, launching its housing component - **DMCI Homes**, in early 2002.

PDI, another wholly owned subsidiary incorporated in 1995, is engaged in construction business-generating investments primarily through its equity participation in various project and infrastructure development activities. These ventures generate not only investment income but also construction business for DMCI. Currently, PDI, hand in hand with affiliate DMCI, is actively engaged in real estate sales and development.

AG&P, a 40%-owned subsidiary, is engaged in heavy fabrication, industrial construction and engineering services. Established in 1900, it is the oldest and largest in the local industry, and caters largely to major oil and gas companies worldwide. Currently, adverse business conditions prompted the company to undergo a corporate rehabilitation.

SMC, a 74%-owned publicly listed company established in 1980 is engaged in the exploration, mining, development and sales of coal resources on Semirara Island in Caluya, Antique. It is currently the Philippines’ largest coal-producing company with a guaranteed long-term market by virtue of its supply contract with state-run National Power Corporation (NPC).

Competition. – *Among the publicly listed companies, DMCI Holdings, Inc. is the only holding company which has construction for its primary investment, Its construction business is primarily conducted by wholly owned D.M. Consunji, Inc. (DMCI), which has, for its competitors, numerous construction contracting companies, both local and foreign, currently operating in the country. It has been an acknowledged trend that the state of construction industry depends mainly on prevailing economic conditions. Thus, the currently weak economic growth explains the continued slump in the construction industry. Given this trend, DMCI has been focusing on selected markets where construction demand has remained relatively strong, particularly, in housing and civil works. This is where the company believes it can compete effectively given its strong construction capabilities, equipment and manpower complement, and track record.*

Dependence on a few customers. – *Not applicable*

Transactions with and/or dependence on related parties. - *Aside from inter-company transactions within the group of companies, and SMC’s long term supply contract with NPC, the Company has no known transactions with and/or dependence on related parties.*

Need for governmental approval of products and services. – *Not applicable*

Effect of existing or probable governmental regulations to the business. – *None at the moment*

Estimate of amount spent for research and development activities. – *Not applicable*

Costs and effects of compliance with environmental laws. - *Costs vary depending on the size and nature of a construction project. Failure to comply with the terms of the ECC (environmental compliance certificate) can lead to imposition of fines and temporary cessation of operations.*

Total number of employees and number of full time employees.

Total No. of Employees	9
Fulltime Employees	9

E. DIRECTORS AND OFFICERS

<u>Name</u>	<u>Position</u>	<u>Age</u>
DAVID M. CONSUNJI	Chairman of the Board of Directors	82
CESAR A. BUENAVENTURA	Vice-Chairman of the Board	74
ISIDRO A. CONSUNJI	President/Chief Executive Officer	55
EDWINA C. LAPERAL	Treasurer/Director	43
CRISTINA C. GOTIANUN	Asst. Treasurer	50
HERBERT M. CONSUNJI	Chief Finance Officer/Director	51
JORGE A. CONSUNJI	Director	51
VICTOR A. CONSUNJI	Director	53
OSCAR S. REYES	Director (Independent)	57
EVARISTO T. FRANCISCO	Director (Independent)	76
NOEL A. LAMAN	Corporate Secretary	63
ALFREDO R. AUSTRIA	Vice-President for Business Development	47

David M. Consunji is the Founder and Chairman of the Board of Directors of D.M. Consunji, Inc. Mr. Consunji is also Chairman of the Board of Directors of Dacon Corporation, Freyssinet Philippines, Inc., Asia Industries, Inc. and Semirara Coal Corporation. Mr. Consunji served as the Secretary of the Department of Public Works, Transportation and Communications from August 1971 to 1975. Awards and recognition received by Mr. Consunji include (i) named Meralco Awardee in Engineering and Applied Sciences, 1994; (ii) recipient of the Civil Engineer Diamond Jubilee Award presented by the University of the Philippines Alumni Engineers in 1988; (iii) One of the Ten Outstanding Civil Engineers in 1982 by the Philippine Institute of Civil Engineers; (iv) recipient of Doctor of Laws, honoris causa, University of the Philippines in 1993; (v) named Outstanding Citizen of the City of Manila for Engineering in 1979; and (vi) named Management Association of the Philippines Awardee in 1996.

Cesar A. Buenaventura, O.B.E., is the Managing Partner of Buenaventura, Echaz and Partners (BEP) Financial Services, a financial advisory firm. He is currently Vice Chairman of DMCI Holdings, Inc.; and of Montecito Properties, Inc.; Chairman of Atlantic Gulf & Pacific Company of Manila (AG&P); and Director of Pilipinas Shell Petroleum Corporation, Philippine American Life Insurance Company, AG&P Company of Manila, Inc., Montecito Properties, Inc., Aurora Properties, Inc., iPeople, Inc., D.M. Consunji, Inc., and Semirara Coal Company. He is the Founding Chairman of Pilipinas Shell Foundation, Inc.; President of the Benigno S. Aquino Foundation; Member of the Board of Trustees of Asian Institute of Management. Mr. Buenaventura served as Chief Executive Officer of the Shell Group of Companies in 1975 until his retirement in 1990. He was appointed Member of the Monetary Board of the Central Bank of the Philippines (representing the Private Sector) and Member of the Board of Directors of the Philippine International Convention Center in 1981, a position he held up to 1987. He was a Member of the Board of Regents of the University of the Philippines from 1987 to 1994. He is a past Director of Philippine National Bank, Ayala Corporation, First Philippine Holdings Corporation, Philippine Airlines, Inc.; and a former Senior Adviser of Jardine Davies, Inc. He was chosen Management Man of the Year in 1985 by MAP and in January 1991, he was personally

granted the award of Honorary Officer of the Order of the British Empire by her Majesty Queen Elizabeth II.

Isidro A. Consunji is a Director of D.M. Consunji, Inc.. His other positions include: Chairman of the Board of Directors of Universal Rightfield Property Holdings, Inc., Vulcan Materials Corporation, and Beta Electric Corporation; President of Dacon Corporation, DMCI Project Developers, Inc., and DMCI Holdings, Inc.

Herbert M. Consunji is a Partner in H.F. Consunji & Associates. Mr. Consunji's other positions include: Director of DMCI Project Developers, Inc., Semirara Mining Corporation; Chairman of Subic Water and Sewerage Company, Inc.; Treasurer of Semirara Mining Corporation; Comptroller of D.M. Consunji, Inc.

Jorge A. Consunji is the President of D.M. Consunji, Inc. His other positions include: President of DMC Construction Equipment Resources, Inc., and Royal Star Aviation, Inc.; Chairman of the Board of Directors of Acotec Panel Manufacturing, Inc. and Wire Rope Corp. of the Phils.; Director of DMCI Holdings, Inc. Dacon Corp., Cotabato Timberland Co., Inc., South Davao Development Co., Inc., Semirara Mining Corp., Property Developers, Inc., Freyssinet Phils., Inc. Freyssi-Marketing, Inc., Atlantic Gulf & Pacific Co. – Manila Inc., Vulcan Materials Corp., and Beta Electric Corp.

Evaristo T. Francisco served as a Member of the Board of Director of D.M. Consunji, Inc. from 1988-2001 and held various positions in Pilipinas Shell as Board of Director, Vice President for Marketing, Personnel and Public Affairs, Sales and other overseas work for Shell International Petroleum Co. **Mr. Francisco has served the Company as Independent Director for three years (since 2001).**

Oscar S. Reyes is the former Country Chairman of the Shell companies in the Philippines. He is currently a member of the Board of Directors of Pilipinas Shell Petroleum Corporation and Managing Director of Shell Philippines Exploration B. V. His other positions are: Chairman, Link Edge, Inc., Unicapital Securities Co., Inc., and Actron Industries Inc.; Member, Advisory Board of Phil. Long Distance Telephone Co., and J.G. Summit Holdings, Inc.; Member, Board of Directors of Universal Robina Corporation, CEO's Inc., CBV Asset Management, Global Resources for Outsourced Workers (GROW), Inc., Bank of the Philippine Islands, The Mutual Fund Co., of the Phils., Inc., Sunlife Prosperity Dollar Advantage Fund, Inc. Peak Systems, Inc. Philippine Electric Corporation, Mindoro Resources Ltd., MRL Gold Phils., Inc., and Level Up, Inc. **Mr. Reyes has served the Company as Independent Director for three years (since 2001).**

Edwina C. Laperal is the Treasurer of DMCI Holdings, Inc., Dacon Corporation and DMCI Urban Property Developers, Inc.; Director of Universal Rightfield Property Holdings, Inc., DMCI Holdings, Inc., DMCI Project Developers, Inc., and D.M. Consunji, Inc..

Victor A. Consunji is the Chairman of the Board of Directors and President of Sirawai Plywood and Lumber Corporation, Prominent Fruits, Inc., and Rubber Industries Corporation of the Philippines. His other positions include: Director of Conbros Shipping Corporation; President of South Davao Development Company, Inc., Eagle Cattle Ranch, Inc., Sirawan Food Corporation, and Semirara Coal Corporation; Director of D.M. Consunji, Inc., Ecoland Properties Development Corporation, and DMC Construction Equipment Resources, Inc., and Vice President of Dacon Corporation.

Cristina C. Gotianun is a Director of Dacon Corporation, D.M. Consunji, Inc. and Kalinan Timber Corporation. Her other positions include: VP for Finance Administrative/Chief Finance Officer of D.M. Consunji, Inc. and General Manager of Sirawan Food Corporation.

Noel A. Laman is the Chairman of the Executive Committee and the Senior Partner of Castillo Laman Tan Pantaleon & San Jose. His other positions include: Chairman of the Board of Directors of Trans-Orient Overseas Contractors, Inc., Manpower Resources of Asia, Inc., and Sealanes Marine Services (each being a part of the DCL group of Companies); Director and Corporate Secretary of

Glaxo Wellcome Philippines, Inc, Boehringer Ingelheim (Phils.), Inc., Solvay Pharma Philippines Corporation, and Merck, Inc. He is an active member of the Intellectual Property Association of the Philippines, the Intellectual Property Foundation, the Philippine Bar Association, and as resource person of various foreign chambers of commerce.

Alfredo R. Austria is the President of Hampstead Corp.; Managing Director of DMCI Homes, a division of DMCI Project Developers, Inc., and Senior Manager for Project Development and Management of D.M. Consunji, Inc. He is the former President of Eco Process Equipment, Inc. and Bachy Soletanche Phils. Corp. He also served as Vice President of Rockwell Land Corporation, General Manager of Pt. Royal Sentul Highland of Indonesia, Business Development Head and Assistant Head of Engineering of D.M. Consunji, Inc. from 1981 to 1994.

(1) Identify Significant Employees –

- (a) The following are the significant employees of the Registrant who are not executive officers but who are expected by Registrant to make a significant contribution to the business:

Significant Employees	Position held in Registrant	Age
Ma. Luisa C. Austria	Administrative / Accounting Officer	52
Aldric G. Borlaza	Finance Officer	26

Ms. Ma. Luisa C. Austria will continue to hold the position of Administrative and Accounting Officer of the Registrant, and Mr. Aldric G. Borlaza will continue to serve as the Finance Officer of the Registrant for the year 2004-2005.

- (b) Brief descriptions of the business experience of the above significant employees of the Registrant:

Ma. Luisa C. Austria is a former Accounting Supervisor of D. M. Consunji, Inc. (1989 to 1996). She is now the Administrative/Accounting Officer of Registrant and has been holding said position for eight (8) years

Aldric G. Borlaza worked for three (3) months in SGV, Assurance or External Audit group, involving basic audit of accounting controls, documents and paper trail as well as basic preparation of Audited Financial Statements (January 2002 to March 2002).

Term of office. The term of office of Ms. Austria is approximately eight years. Mr. Borlaza has been serving the company for two (2) years since April of 2002.

F. MARKET PRICE OF AND DIVIDENDS ON REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(2) Market Information

- (a) Identify the principal market or markets where the registrant's common equity is traded. If there is no public trading market, so state - **Both common and preferred shares of DMCI Holdings, Inc. are traded on the Philippine Stock Exchange.**

- (i) If the principal market for the registrant's common equity is a Stock Exchange in the Philippines or a foreign Exchange, state the name of that Exchange and give the high and low

sales prices for each quarter within the last two fiscal years and any subsequent interim period for which financial statements are required by SRC Rule 68. – **See table below**

Common Share Prices		High	Low
2001	First Quarter	0.34	0.34
	Second Quarter	0.30	0.29
	Third Quarter	0.20	0.20
	Fourth Quarter	0.17	0.17
2002	First Quarter	0.29	0.29
	Second Quarter	0.15	0.15
	Third Quarter	0.145	0.145
	Fourth Quarter	0.14	0.14
2003	First Quarter	0.16	0.16
	Second Quarter	0.23	0.23
	Third Quarter	0.30	0.29
	Fourth Quarter	0.24	0.24
Preferred Share Prices		High	Low
2001	First Quarter	600	490
	Second Quarter	520	465
	Third Quarter	520	495
	Fourth Quarter	570	510
2002	First Quarter	775	770
	Second Quarter	775	775
	Third Quarter	775	775
	Fourth Quarter	775	775
2003	First Quarter	775	775
	Second Quarter	775	775
	Third Quarter	775	775
	Fourth Quarter	775	775

(b) If the information called for by paragraph (A) of this Part is being presented in a registration statement filed pursuant to Section 12 or in an annual report filed pursuant to Section 17 or in an information statement filed pursuant to Section 17.1(b) or in a proxy statement filed pursuant to Section 20 of the Code, respectively, the document shall also include price information as of the latest practicable trading date, and, in the case of securities to be issued in connection with an acquisition, business combination or other reorganization, as of the trading date immediately prior to the public announcement of such transaction. – **Price information as of the latest practicable trading date: As of June 29, 2004: HIGH: P0.43; LOW: P0.391; CLOSE: P0.42; Volume: 15,100,00.**

(c) If the information called for by paragraph (A) of this Part is being presented in a registration statement relating to a class of common equity for which at the time of filing there is no established public trading market in the Philippines, indicate the amounts of common equity – **Not applicable**

(2) Holders

(a) Set forth the approximate number of holders of each class of common equity of the registrant as of the latest practicable date but in no event more than ninety (90) days prior to filing the registration statement. Include the names of the top twenty (20) shareholders of each class and the number of shares held and the percentage of total shares outstanding held by each. - **Number of Shareholders: As of April 30, 2004 the Company had a total of 1,397 shareholders of which 1,343 were holders of common shares and 54 were holders of preferred shares.**

(3) Dividends

(a) Discuss any cash dividends declared on each class of its common equity by the registrant for the two most recent fiscal years and any subsequent interim period for which financial statements are required to be presented by SRC Rule 68. – **See below.**

1. On April 7, 1999, the Company paid the semi-annual dividend of 2.5 % for last semester of the second year to the holders of the preferred shares.
2. On October 7, 1999, the Company paid the semi-annual dividend of 3.6 % for the first semester of the third year to the holders of the preferred shares.
3. On April 7, 2000, the Company paid the semi-annual dividend of 3.6% for last semester of the third year to the holders of the preferred shares.
4. On October 7, 2000, the Company paid the semi-annual dividend of 3.6% for the first semester of the fourth year to the holders of the preferred shares.

(b) Describe any restrictions that limit the ability to pay dividends on common equity or that are likely to do so in the future. – ***There are no contractual or other restrictions on the Company's ability to pay dividends. However, the ability of the Company to pay dividends will depend upon the amount of distributions, if any, received from the Company's operating subsidiaries and joint venture investments and the availability of unrestricted retained earnings. The Company's operating subsidiaries however are restricted on the declaration and payment of dividends, as limited by negative covenants entered into by the operating subsidiaries with outside parties.***

G. DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

The Corporation has set up all committees set forth under the Manual of Corporate Governance.

The Corporate Governance Self-Rating Form has been accomplished and submitted with the Securities and Exchange Commission accordingly.

The Board of Directors of the Corporation approved the amendment of the Manual on Corporate Governance to adopt and include Section 4.2 of the Revised Disclosure Rules of the Philippine Stock Exchange.

To date, there has been no deviation from the Corporation's Manual on Corporate Governance.

H. UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, WITHOUT CHARGE, A COPY OF THE COMPANY'S ANNUAL REPORT IN SEC FORM 17-A DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUESTS MAY BE SENT TO THE FOLLOWING:

3/F Dacon Building, 2281 Don Chino Roces Avenue, Makati City, 1231, Philippines

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of DMCI HOLDINGS, INC. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2003 and 2002. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The management likewise discloses to the company's audit committee and to its external auditor:

- (i) All significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data;
- (ii) Material weaknesses in the internal controls; and
- (iii) Any fraud that involves ~~management~~ or other employees who exercise significant roles in internal controls.

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

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

Signed under oath by:

DAVID M. CONSUNJI
Chairman of the Board

ISIDRO A. CONSUJI
Chief Executive Officer

HERBERT M. CONSUNJI
Chief Finance Officer

DMCI HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2003 and 2002
and Years Ended December 31, 2003, 2002 and 2001

and

Report of Independent Auditors

Report of Independent Auditors

The Stockholders and the Board of Directors
DMCI Holdings, Inc.
3rd Floor, Dacon Building
2281 Don Chino Roces Avenue
Makati City

We have audited the accompanying consolidated balance sheets of DMCI Holdings, Inc. and Subsidiaries as of December 31, 2003 and 2002, 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, 2003. 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 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 DMCI Holdings, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 7012968
January 5, 2004
Makati City

April 27, 2004

Report of Independent Auditors

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, 2003 and 2002, 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, 2003. 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 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 DMCI Holdings, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

PTR No. 7012968
January 5, 2004
Makati City

April 27, 2004

*** SGVMC105399 ***

**Report of Independent Auditors
On Supplementary Schedules**

The Stockholders and the Board of Directors
DMCI Holdings, Inc.
3rd Floor, Dacon Building
2281 Don Chino Roces Avenue
Makati City

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated April 27, 2004. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the 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 Rule 68.1 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated financial statements taken as a whole.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 7012968
January 5, 2004
Makati City

April 27, 2004

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2003	2002 (As restated)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P247,590,446	P237,126,624
Receivables - net (Note 5)	2,250,430,025	2,739,058,896
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 6)	85,761,744	27,484,328
Inventories - net (Note 7)	591,794,231	623,927,272
Real estate for sale and development (Note 8)	2,546,553,350	2,143,242,691
Other current assets (Note 9)	148,958,971	94,066,491
Total Current Assets	5,871,088,767	5,864,906,302
Noncurrent Assets		
Noncurrent receivables - net (Note 5)	1,173,602,549	680,055,302
Investments in associates, jointly controlled entities and others - net (Note 10)	418,028,180	418,450,765
Investments in real estate - net (Note 10)	1,751,967,471	1,802,687,120
Property, plant and equipment - net (Note 11)	2,653,164,758	3,029,765,072
Other noncurrent assets - net (Note 12)	616,561,273	545,236,552
Total Noncurrent Assets	6,613,324,231	6,476,194,811
	P12,484,412,998	P12,341,101,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 13)	P823,617,491	P743,687,768
Accounts and other payables (Note 14)	2,831,720,281	2,588,413,175
Current portion of long-term debt (Note 15)	772,335,328	653,024,135
Estimated liability for property development	26,541,992	16,924,373
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 6)	422,554,809	420,375,967
Total Current Liabilities	4,876,769,901	4,422,425,418
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 15)	1,597,725,549	1,919,349,465
Payables to related parties (Note 25)	1,189,502,186	1,151,328,325
Other noncurrent liabilities (Note 16)	376,272,785	579,334,706
Total Noncurrent Liabilities	3,163,500,520	3,650,012,496
	8,040,270,421	8,072,437,914
Minority Interest in Consolidated Subsidiaries	219,225,595	219,024,700
Stockholders' Equity (Note 17)		
Preferred stock	451,690	1,288,265
Common stock	2,255,494,000	2,255,494,000
Additional paid-in capital	2,929,845,102	3,743,129,855
Deficit (Notes 2 and 3)	(723,585,843)	(920,090,570)
	4,462,204,949	5,079,821,550
Preferred shares held in treasury - at cost	(237,287,967)	(1,030,183,051)
Total Stockholders' Equity	4,224,916,982	4,049,638,499
	P12,484,412,998	P12,341,101,113

See accompanying Notes to Consolidated Financial Statements.

* SGVMC105399 *

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2003	2002 (As restated)	2001 (As restated)
SALES AND SERVICES (Note 18)	₱4,615,830,531	₱3,217,586,192	₱4,066,021,122
COSTS OF SALES AND SERVICES (Note 19)	3,564,985,739	2,633,993,983	3,389,501,903
GROSS PROFIT	1,050,844,792	583,592,209	676,519,219
OPERATING EXPENSES (Note 20)	(635,682,698)	(713,899,262)	(575,326,305)
OTHER OPERATING INCOME - Net (Note 21)	40,101,178	103,132,557	59,756,679
INCOME (LOSS) FROM OPERATIONS (Note 2)	455,263,272	(27,174,496)	160,949,593
OTHER EXPENSES - Net			
Other charges - net (Note 22)	383,695,711	321,079,908	219,374,680
Equity in net losses (earnings) of associates and jointly controlled entities (Note 10)	(899,614)	35,208,916	(16,342,679)
	382,796,097	356,288,824	203,032,001
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	72,467,175	(383,463,320)	(42,082,408)
BENEFIT FROM INCOME TAX (Note 23)	(164,001,166)	(90,533,240)	(67,104,895)
INCOME (LOSS) BEFORE MINORITY INTEREST	236,468,341	(292,930,080)	25,022,487
MINORITY INTEREST	(39,963,614)	70,770,639	(8,860,874)
NET INCOME (LOSS) (Notes 2 and 3)	₱196,504,727	(₱222,159,441)	₱16,161,613
Basic Earnings (Loss) Per Share (Note 24)	₱0.07	(₱0.14)	(₱0.05)

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2003	2002 (As restated)	2001 (As restated)
CAPITAL STOCK (Note 17)			
Preferred stock - ₱1 par value, cumulative and convertible			
Balance at beginning of year	₱1,288,265	₱2,400,000	₱2,400,000
Retirement of preferred shares	(836,575)	(1,111,735)	-
Balance at end of year	451,690	1,288,265	2,400,000
Common stock - ₱1 par value	2,255,494,000	2,255,494,000	2,255,494,000
	2,255,945,690	2,256,782,265	2,257,894,000
ADDITIONAL PAID-IN CAPITAL (Note 17)			
Balance at beginning of year	3,743,129,855	4,717,685,929	4,717,685,929
Retirement of preferred shares	(813,284,753)	(974,556,074)	-
Balance at end of year	2,929,845,102	3,743,129,855	4,717,685,929
DEFICIT			
Balance at beginning of year, as previously reported	(897,673,411)	(682,980,679)	(700,519,745)
Change in accounting policy for preoperating expenses (Note 3)	(22,417,159)	(14,950,450)	(13,572,997)
Balance at beginning of year, as restated	(920,090,570)	(697,931,129)	(714,092,742)
Net income (loss) (Notes 2 and 3)	196,504,727	(222,159,441)	16,161,613
Balance at end of year	(723,585,843)	(920,090,570)	(697,931,129)
PREFERRED SHARES HELD IN TREASURY (Note 17)			
Balance at beginning of year	(1,030,183,051)	(574,290,761)	(574,290,761)
Redemption of preferred shares	(21,226,244)	(1,431,560,099)	-
Retirement of preferred shares	814,121,328	975,667,809	-
Balance at end of year	(237,287,967)	(1,030,183,051)	(574,290,761)
	₱4,224,916,982	₱4,049,638,499	₱5,703,358,039

See accompanying Notes to Consolidated Financial Statements.

*** SGVMC105399 ***

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2003	2002 (As restated)	2001 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax and minority interest	₱72,467,175	(₱383,463,320)	(₱42,082,408)
Adjustments for:			
Depreciation, depletion and amortization	542,871,194	579,816,498	696,542,740
Interest expense	354,278,164	315,978,046	344,773,783
Provisions for:			
Doubtful accounts	118,367,851	178,544,280	65,928,080
Probable losses on investments	11,459,652	44,787,767	–
Inventory obsolescence and losses	557,940	–	–
Decline in value of housing and condominium units	–	–	8,116,977
Inventories written-off	–	44,270,114	–
Foreign exchange losses (gain)	36,975,433	31,958,010	(11,217,725)
Loss (gain) on disposals of:			
Property and equipment	54,878,513	11,002,600	8,833,129
Investments	(3,965,480)	14,692,000	5,143,417
Interest income	(7,557,886)	(26,856,148)	(114,181,378)
Equity in net losses (earnings) of associates and jointly controlled entities	(899,614)	35,208,916	(16,342,679)
Reversal of allowance for doubtful accounts	–	(22,400,272)	–
Operating income before changes in working capital	1,179,432,942	823,538,491	945,513,936
Decrease (increase) in:			
Receivables	346,826,946	172,560,442	(264,335,780)
Inventories	31,575,101	(247,095,186)	(26,389,268)
Real estate for sale and development	(403,310,659)	(116,685,001)	(123,128,533)
Other current assets	(55,795,190)	(19,122,649)	55,161,651
Increase (decrease) in:			
Accounts and other payables	199,720,595	(1,205,157,662)	(760,472,776)
Estimated liability for property development	9,617,857	(51,114,760)	(23,118,070)
Billings in excess of costs and estimated earnings on uncompleted contracts - net	(56,098,574)	(7,629,716)	13,939,632
Deferred revenue on real estate sales	23,305,518	(7,798,538)	25,316,625
Realized customers' deposits	(16,030,021)	–	(13,739,652)
Cash generated from (used in) operations	1,259,244,515	(658,504,579)	(171,252,235)
Interest received	7,545,040	107,097,746	24,117,857
Interest paid	(281,888,442)	(239,932,022)	(286,377,806)
Income taxes paid	(65,543,017)	(46,112,366)	(99,182,447)
Net cash provided by (used in) operating activities	919,358,096	(837,451,221)	(532,694,631)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investments	8,041,165	(45,996,085)	43,148,183
Noncurrent receivables	(493,547,247)	490,989,135	216,261,322
Other noncurrent assets	(56,623,565)	(7,153,074)	(66,635,203)

(Forward)

* SGVMC105399 *

	Years Ended December 31		
	2003	2002 (As restated)	2001 (As restated)
Proceeds from disposals of:			
Property and equipment	₱41,181,545	₱795,294	₱25,978,397
Investments	5,612,001	13,528,692	73,554,173
Acquisitions of property and equipment	(168,725,854)	(213,633,822)	(434,862,422)
Cash from a deconsolidated subsidiary	-	-	(923,929)
Net cash provided by (used in) investing activities	(664,061,955)	238,530,140	(143,479,479)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of long-term debt	208,259,249	50,649,357	731,999,975
Net availments (payments) of notes payable	79,929,723	63,392,197	(149,820,215)
Increase in payables to related parties	38,173,861	754,800,557	217,953,677
Payments of long-term debt	(539,696,389)	(102,250,351)	(333,030,319)
Redemption of preferred shares	(19,226,244)	(223,849,370)	-
Decrease in other noncurrent liabilities	(12,272,519)	(27,525,035)	(176,037,970)
Net cash provided by (used in) financing activities	(244,832,319)	515,217,355	291,065,148
NET INCREASE (DECREASE)			
IN CASH AND CASH EQUIVALENTS	10,463,822	(83,703,726)	(385,108,962)
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF YEAR	237,126,624	320,830,350	705,939,312
CASH AND CASH EQUIVALENTS			
AT END OF YEAR	₱247,590,446	₱237,126,624	₱320,830,350

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

DMCI Holdings, Inc. (the Company) is incorporated and domiciled in the Philippines. The Company's registered office and principal place of business is at 3rd Floor, Dacon Building, 2281 Don Chino Roces Avenue, Makati City.

The Company is the holding company of DMCI Group which is primarily engaged in general construction, coal mining, infrastructure and real estate development and manufacturing (see Notes 2 and 3).

As of December 31, 2003 and 2002, the Company and its subsidiaries had 1,529 and 1,360 employees, respectively.

The consolidated financial statements of DMCI Holdings, Inc. and Subsidiaries (the Group) were authorized for issue by the Board of Directors (BOD) and Audit Committee on April 27, 2004.

2. Status of Operations and Business Segment Information

Status of Operations

As shown in the consolidated financial statements, the Group has a cumulative deficit of ₱724 million and ₱920 million as of December 31, 2003 and 2002, respectively. The Group's interest-bearing obligations amounted to ₱3,194 million as of December 31, 2003 and ₱3,316 million as of December 31, 2002. Interest expense amounted to ₱354 million, ₱316 million, and ₱345 million for the years ended December 31, 2003, 2002, and 2001, respectively.

In 2003, the financial performance of the Group improved due to (a) favorable results in its construction and mining operations; (b) Group's management efforts to identify certain assets to provide the Group with additional sources of liquidity; (c) general cost reduction measures; and (d) reorganization of management and administrative support functions. Revenue increased resulting in an income from operations of ₱455 million in 2003 against a loss from operations of ₱27 million (as restated) in 2002 and income from operations of ₱161 million (as restated) in 2001. The Group posted a net income in 2003 of ₱197 million against a net loss of ₱222 million (as restated) in 2002 and a net income of ₱16 million (as restated) in 2001. The Group was able to reduce its maturing financial obligations by ₱252 million (net of availments) in 2003.

Notwithstanding the improved financial performance of the Group in 2003, the Group's current financial position indicates that sufficient cash flows have to be generated to finance its operations and to fully service its maturing obligations.

Business Segment Information

Financial information by segment is reported on the basis used internally for evaluating segment performance and allocating resources among operating segments.

The industry segments where the Group operates are: general construction, coal mining, infrastructure and real estate development and manufacturing.

Business Segments

The following tables present revenue, net income (loss) and depreciation, depletion and amortization information regarding business segments for the years ended December 31, 2003, 2002 and 2001 and total assets and total liabilities for the business segments as of December 31, 2003 and 2002 (amounts in thousands):

	Revenue			Net Income (Loss)		
	2003	2002	2001	2003	2002 (As restated)	2001 (As restated)
General Construction	₱1,948,531	₱1,343,032	₱2,316,521	₱112,510	(₱232,183)	₱34,771
Coal Mining	2,177,241	1,517,087	1,360,356	151,897	6,377	(21,913)
Infrastructure and Real Estate Development	470,405	328,982	346,059	(24,728)	41,606	58,764
Manufacturing and Parent Company	19,653	28,485	43,085	(43,174)	(37,959)	(55,460)
	₱4,615,830	₱3,217,586	₱4,066,021	₱196,505	(₱222,159)	₱16,162

	Depreciation, Depletion and Amortization			Total Assets		Total Liabilities	
	2003	2002	2001	2003	2002 (As restated)	2003	2002
General Construction	₱86,999	₱141,034	₱333,848	₱4,116,848	₱4,457,480	₱2,690,111	₱2,256,369
Coal Mining	427,589	399,908	314,462	3,099,404	3,412,775	2,539,553	3,089,141
Infrastructure and Real Estate Development	26,484	30,932	45,401	4,917,336	3,827,883	1,541,584	1,584,898
Manufacturing and Parent Company	1,799	7,942	2,832	350,825	642,963	1,269,022	1,142,030
	₱542,871	₱579,816	₱696,543	₱12,484,413	₱12,341,101	₱8,040,270	₱8,072,438

3. **Summary of Significant Accounting Policies**

Basis of Financial Statements Preparation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines (Philippine GAAP) using the historical cost basis except for certain property, plant and equipment, which are carried at adjusted cost.

Use of Estimates

The preparation of the consolidated financial statements in accordance with Philippine GAAP requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates will be recorded in the consolidated financial statements as they become determinable.

Changes in Accounting Policies

On January 1, 2003, the Group adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS):

- SFAS 10/IAS 10, *Events After the Balance Sheet Date*, prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the consolidated financial statements, principally the date of authorization for issuance of the consolidated financial statements.
- SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. Adoption of this standard has no effect on the accompanying consolidated financial statements.
- SFAS 38/IAS 38, *Intangible Assets*, establishes the criteria for the recognition and measurement of intangible assets. It also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred. A certain subsidiary in preparatory stage changed its method of accounting for preoperating expenses and, accordingly, reversed its unamortized preoperating expenses to conform to the standard. Previously, such expenses were deferred and to be amortized upon the start of the subsidiary's operations. The change in accounting policy has been accounted for retroactively and the comparative statements for 2002 and 2001 have been restated. The change increased net loss by ₱7 million in 2002 and decreased net income by ₱1 million in 2001. Deficit as of January 1, 2003, 2002, and 2001 has increased by ₱22 million, ₱15 million and ₱14 million, respectively.

Basis of Consolidation

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

The consolidated financial statements include the financial statements of the Company and the following subsidiaries as of December 31 of each year:

	Effective Percentage of Ownership
<u>General Construction:</u>	
D.M. Consunji, Inc. (DMCI)	100.00
DMCI International, Inc. (DMCII)	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing)	60.00
OHKI-DMCI Corporation (OHKI)	60.00
Beta Electric Corporation (Beta Electric)	50.10
<u>Infrastructure and Real Estate Development:</u>	
DMCI Project Developers, Inc. (PDI)	100.00
Contech Products Corporation (Contech)	100.00
Hampstead Gardens Corporation (Hampstead)	60.00
Riviera Land Corporation (Riviera)	51.00
Constress Philippines, Inc. (Constress)	50.71

(Forward)

	Effective Percentage of Ownership
Coal Mining:	
Semirara Mining Corporation (Semirara)	74.40
Manufacturing:	
Semirara Cement Corporation (SemCem)*	100.00
Contech Products South Corporation (Contech South)	52.00
Wire Rope Corporation of the Philippines (Wire Rope)	61.70

* Organized on January 29, 1998 and has not yet started commercial operations.

DMCI's subsidiaries include DMCII, DMCI-Laing, OHKI, Beta Electric, Constress and Contech South.

PDI's subsidiaries include Contech and Hampstead.

Except as stated otherwise, consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated in consolidation.

Minority interest represents the interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Company. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest's equity in the subsidiary. The excess and any further losses applicable to the minority are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profit until the minority's share of losses previously absorbed by the majority has been recovered.

Cash and Cash Equivalents

Cash includes cash on hand and 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 and that are subject to an insignificant risk of change in value.

Receivables

Receivables are recognized and carried at the original contract price or invoice amount, less allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable or when the amounts anticipated to be received in settlement of such receivables are less than the amounts due. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential losses on receivables and is determined after a study of the estimated collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experience in relation to the particular receivables, past and expected loss experiences and specifically identified doubtful accounts.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated replacement cost or the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of coal inventory is determined by the weighted average production cost method. The cost of equipment parts, materials and supplies is determined substantially by the average cost methods (either by moving average or weighted average production cost). The cost of equipment parts, materials and supplies determined by the first-in, first-out method accounts for about 5% of total inventories.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged to operations.

Real Estate for Sale and Development

Real estate for sale and development are carried at the lower of cost or NRV. Real estate costs include those costs that relate to the acquisition, development, improvement and construction of the real estate projects. Borrowing costs are capitalized while the development and construction of the real estate projects are in progress, and to the extent that these are expected to be recovered in the future. NRV is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Investments in Associates, Jointly Controlled Entities and Others

Investments in associates and jointly controlled entities are accounted for under the equity method. Under this method, such investments are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. The consolidated statements of income reflect the Group's share of the results of operations of these investees. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Group's 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 investment.

If the Group's share in the losses of an investee equals or exceeds the carrying amount of its investment, the Group ordinarily discontinues recognizing its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the investee to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of net losses not recognized.

Investments in shares of stock of companies in which the Group does not exercise significant influence are carried at cost. An allowance is set up for any substantial and presumably permanent decline in the carrying value of these investments.

Investments in Real Estate

Investments in land are carried at cost less any impairment in value.

Investments in condominium units are carried at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset ranging from 5 to 10 years.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, depletion and amortization and any impairment in value. Land is stated at cost, less any impairment in value.

Certain land and land improvements, buildings and building improvements and conventional and continuous mining equipment of Semirara acquired up to April 30, 1997 are stated at adjusted cost (as a result of Semirara's quasi-reorganization as of December 31, 1997) (see Note 11) as determined by an independent firm of appraisers as of that date less accumulated depreciation and amortization and any impairment in value. Subsequent additions are stated at cost, less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, 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, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation and amortization of property, plant and equipment, except for mining properties, mine exploration and development costs, are calculated on the straight-line basis over the following estimated useful lives of the respective assets:

Land improvements	5 to 17 years
Buildings and building improvements	5 to 25 years
Construction equipment, machinery and tools	4 to 10 years
Office furniture, fixtures and equipment	3 to 7 years
Transportation equipment	4 to 5 years
Conventional and continuous mining equipment	2 to 13 years
Leasehold improvements	5 to 7 years or terms of the lease, whichever is shorter

Depletion of mining properties, mine exploration and development costs are calculated based on the units-of-production method.

The useful lives and depreciation, depletion and amortization method are reviewed periodically to ensure that the period and method of depreciation, depletion and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress included in property, plant and equipment is stated at cost. This includes cost of construction of property, plant and equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Mine Exploration and Development Costs

Expenditures for mine exploration and development activities on mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, the exploration expenses and subsequent development expenses are deferred and presented as part of the "Other noncurrent assets" account in the consolidated balance sheets. Upon the start of commercial production, such costs are accordingly transferred to the "Property, plant and equipment" account in the consolidated balance sheets and amortized using the units-of-production method.

Stripping Costs

Stripping costs are capitalized based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine. These costs, included under the "Other noncurrent assets" account in the consolidated balance sheets, are amortized using the units-of-production method.

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.

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 period 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 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.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of housing and condominium units are capitalized as part of the "Real estate for sale and development" account in the consolidated balance sheets. Other borrowing costs are recognized as expense in the year in which these costs are incurred.

The capitalization of borrowing costs as part of the cost of housing and condominium units: (a) commences when the expenditures and borrowing costs for the housing and condominium units are being incurred and activities that are necessary to prepare the housing and condominium units for its intended use or sale are in progress; (b) is suspended during extended periods in which active development, improvement and construction of the housing and condominium units are interrupted; and (c) ceases when substantially all the activities necessary to prepare the housing and condominium units for its intended use or sale are complete. If the carrying amount of the assets exceeds its recoverable amount, an impairment loss is recorded.

Provisions

Starting 2003, provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

In prior years, provisions for contingencies were accrued when it is probable that a liability had been incurred at balance sheet date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed.

Revenue and Cost Recognition

Construction Contracts

Revenue from construction contracts is recognized under the percentage of completion method of accounting and is 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. Revenue from cost plus contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

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. 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 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 margin are recognized in the year in which the changes are determined. Profit incentives are recognized as revenue 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 of total costs incurred and estimated earnings recognized. Contract retentions are included as part of "Trade receivables - construction" under the "Receivables" account in the consolidated balance sheets.

Real Estate Sales

Revenue from real estate sales, which consists primarily of the sale of housing and condominium units, with material obligations under the sales contracts to provide improvements after the property is sold, is accounted for under the percentage of completion method. Under this method, the revenue is deferred and presented as "Deferred revenue on real estate sales" under the "Other noncurrent liabilities" account in the consolidated balance sheets and realized as the related obligations are fulfilled. 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 presented as "Customers' deposits", included in the "Accounts and other payables" account in the liabilities section of the consolidated balance sheets. Cancellations of prior year sales and related deferred gross profit are deducted from current year revenue and costs.

The costs of related housing and condominium units sold before completion of the projects are determined based on the actual costs incurred and project cost estimates as determined by the contractors and technical staff of the Group. The estimated future expenditures for the completion of sold residential and condominium units are presented as "Estimated liability for property development" account in the consolidated balance sheets.

Coal Sales

Revenue from coal sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Merchandise Sales

Revenue from merchandise sales is recognized upon delivery of the goods to and acceptance by the buyer and when the risks and rewards are passed on to the dealers.

Interest Income

Interest income is recognized as it accrues, taking into account the effective yield of the assets.

Leases

Operating lease payments are recognized as expense in the consolidated statements of income based on the terms of the lease contracts.

Retirement Costs

Most of the Group's retirement costs are actuarially determined using either the projected unit credit method or the attained age cost method. The projected unit credit method reflects the services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service costs plus amortization of past service costs, experience adjustments and changes in actuarial assumptions over the expected remaining working lives of the covered employees. Certain subsidiaries determined their retirement costs using the attained age cost method. Under the attained age cost method, past service costs, experience adjustments and the effects of changes in actuarial assumptions are amortized over the expected remaining working lives of the covered employees. Of the consolidated retirement costs, 46% was determined using the projected unit credit method and 54% using the attained age cost method.

IAS 19, *Employee Benefits*, will become effective in January 2005. Under IAS 19, the only allowed valuation method is the projected unit credit method. The Company's subsidiaries that are currently using the attained age cost method will shift to projected unit credit method in 2005. The impact on the consolidated financial statements of the shift to projected unit credit method has not yet been determined.

Income Taxes

Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax benefits or consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and carryforward benefit of the excess of minimum corporate income tax (MCIT) over normal income tax and net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rate applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled and the carryforward benefit of the MCIT and NOLCO are expected to be applied. A valuation allowance is provided for deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not 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 year.

Under the provisions of Republic Act No. 7227, DMCII, being a Subic Bay Free Port Zone enterprise, is subject to a tax of 5% on gross income in lieu of all other taxes.

Foreign Currency Transactions

Transactions denominated in foreign currency are recorded using the exchange rate prevailing as of the date of the transactions. Outstanding foreign currency-denominated assets and liabilities at year-end are translated to Philippine Pesos at prevailing Philippine Dealing System rates at balance sheet dates. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited or charged to current operations.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events

Post-year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

Earnings (Loss) Per Share

Basic earnings (loss) per share are calculated by dividing the net income (loss) for the year attributable to common shareholders [net income (loss) for the period less dividends on convertible redeemable preferred shares] by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

Diluted earnings per share are calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year (adjusted for the effects of dilutive convertible redeemable preferred shares). The net income (loss) attributable to common shareholders is increased by the dividends on convertible redeemable preferred shares. The weighted average number of common shares is increased by the weighted average number of additional common shares which would be issued assuming the conversion of all dilutive potential common shares.

Diluted earnings (loss) per share assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted earnings per share is presented.

Segments

The Group's 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. Financial information on business segments is presented in Note 2 to the consolidated financial statements.

New Accounting Standards Effective in 2004

The Accounting Standards Council has approved the following accounting standards, relevant to the Group, which will be effective in 2004:

- SFAS 12/IAS 12, *Income Taxes*, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that the taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of deferred tax liability with respect to asset revaluations. The Group will adopt SFAS 12/IAS 12 in 2004 and has not yet determined the impact on the consolidated financial statements of the adoption of this standard.

- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee. A lessee is required to record operating lease as an expense on a straight-line basis unless another systematic basis is representative of the pattern of the user's benefit. Lease incentive is recognized as an income over the term of the lease or another systematic basis. The Group will adopt SFAS 17/IAS 17 in 2004 and has not yet determined the impact on the consolidated financial statements of the adoption of this standard.

4. Cash and Cash Equivalents

This account consists of:

	2003	2002
Cash on hand and in banks - net of restricted cash of ₱3,330,744 in 2003 (see Note 12)	₱240,607,499	₱203,511,654
Short-term investments	6,982,947	33,614,970
	₱247,590,446	₱237,126,624

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

5. Receivables

This account consists of:

	2003	2002
Trade receivables:		
Construction (including retention receivables on uncompleted contracts of ₱530,462,624 in 2003 and ₱557,687,586 in 2002) (see Note 25)	₱1,098,263,034	₱1,655,887,430
Real estate (see Notes 13 and 15)	302,913,152	116,800,698
Coal sales (see Notes 15 and 27)	386,158,618	365,685,306
Others	278,657,041	181,297,638
Receivables from related parties (see Note 25)	1,173,602,549	1,232,415,302
Receivables from subcontractors and suppliers	362,591,717	243,550,753
Other receivables	125,477,834	363,350,979
	3,727,663,945	4,158,988,106
Less allowance for doubtful accounts	303,631,371	739,873,908
	3,424,032,574	3,419,114,198
Less noncurrent receivables - net	1,173,602,549	680,055,302
	₱2,250,430,025	₱2,739,058,896

As of December 31, 2003 and 2002, total trade receivables - real estate amounting to ₱193 million and ₱52 million, respectively, was used to secure the Group's bank loans (see Notes 13 and 15).

Receivables from Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P)

On January 31, 2002, AG&P filed a petition for rehabilitation (after approval of AG&P's stockholders and BOD on January 29, 2002) with the Regional Trial Court (RTC) of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring and disposing any of its properties in any manner except in the ordinary course of business.

On March 11, 2003, the RTC approved AG&P's updated rehabilitation plan that included, among others, the settlement of the Group's claims from AG&P.

Receivables from Universal Rightfield Property Holdings, Inc. (URPHI)

The Group's receivables from URPHI, a related party, amounted to ₱319 million and ₱533 million as of December 31, 2003 and 2002, respectively (including ₱319 million in 2003 and ₱449 million in 2002 recorded as part of "Trade receivables - construction" account).

On January 28, 2004, DMCI, as a creditor of URPHI, initiated a petition for rehabilitation of URPHI with the RTC of Mandaluyong City. On February 17, 2004, the RTC issued a stay order prohibiting URPHI from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business. The rehabilitation plan, subject to the approval of the court included among others, the settlement of DMCI's claims from URPHI. The Group's contract receivables from URPHI arose from construction agreements with DMCI for the development of Pioneer Highlands and Dansalan projects.

The recoverability of the Group's receivables from AG&P and URPHI depends on the successful implementation of their rehabilitation plan. The consolidated financial statements do not include any adjustments relating to these uncertainties.

6. Costs, Estimated Earnings and Billings on Uncompleted Contracts

The details of the costs, estimated earnings and billings on uncompleted contracts follow:

	2003	2002
Total costs incurred	₱2,310,426,831	₱5,073,468,349
Add estimated earnings recognized	380,480,507	421,732,888
	2,690,907,338	5,495,201,237
Less total billings (including unliquidated advances from contract owners of ₱499,118,361 in 2003 and ₱408,664,917 in 2002)	3,027,700,403	5,888,092,876
	(₱336,793,065)	(₱392,891,639)

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

	2003	2002
Costs and estimated earnings in excess of billings on uncompleted contracts	₱85,761,744	₱27,484,328
Billings in excess of costs and estimated earnings on uncompleted contracts	(422,554,809)	(420,375,967)
	(₱336,793,065)	(₱392,891,639)

7. Inventories

This account consists of:

	2003	2002
Equipment parts, materials and supplies, at NRV	₱448,580,418	₱436,718,540
Coal, at cost	138,233,994	142,475,530
Equipment parts, materials and supplies in transit, at cost	4,979,819	44,733,202
	₱591,794,231	₱623,927,272

The cost of equipment parts, materials and supplies amounted to ₱494 million and ₱484 million as of December 31, 2003 and 2002, respectively.

8. Real Estate for Sale and Development

This account consists of:

	2003	2002
Housing and condominium units for sale and development (see Notes 13, 14, 15 and 16)	₱1,426,580,939	₱770,272,535
Land for sale and development (see Note 15)	1,119,972,411	1,372,970,156
	₱2,546,553,350	₱2,143,242,691

As of December 31, 2003 and 2002, housing and condominium units for sale and development with an aggregate carrying value of ₱440 million and ₱179 million, respectively, were mortgaged by the Group to secure its various bank loans and notes payable to certain preferred shareholders of the Company (see Note 15).

As of December 31, 2003 and 2002, land for sale and development with an aggregate carrying value of ₱839 million and ₱836 million, respectively, were mortgaged by PDI to guarantee various credit facilities and secure the Group's bank loans and notes payable to certain preferred shareholders of the Company (see Notes 15 and 17).

Total interest capitalized by PDI and Hampstead, as part of "Housing and condominium units for sale and development" amounted to ₱9.4 million and ₱8.8 million in 2003 and 2002, respectively.

9. Other Current Assets

This account consists of:

	2003	2002
Creditable taxes withheld	P56,199,607	P17,485,160
Value added input taxes	46,012,289	19,625,274
Prepaid expenses	21,341,531	35,276,682
Deferred tax assets - net (see Note 23)	15,663,164	16,565,874
Others	9,742,380	5,113,501
	P148,958,971	P94,066,491

10. Investments

The details of the Group's investments in associates, jointly controlled entities and others follow:

	2003	2002
Investments - At Equity:		
Investments in associates		
Acquisition cost:		
Balance at beginning of year	P496,157,468	P452,407,468
Additions during the year	8,820,000	43,750,000
Balance at end of year	504,977,468	496,157,468
Accumulated equity in net losses:		
Balance at beginning of year	(377,298,931)	(340,470,925)
Equity in net losses during the year	(222,842)	(36,828,006)
Balance at end of year	(377,521,773)	(377,298,931)
	127,455,695	118,858,537
Allowance for probable losses	(35,910,514)	(35,910,514)
	91,545,181	82,948,023
Jointly controlled entities		
Acquisition cost:		
Balance at beginning of year	32,000,000	32,000,000
Additions during the year	131,721	-
Balance at end of year	32,131,721	32,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	54,236,069	52,616,979
Equity in net earnings during the year	1,122,456	1,619,090
Balance at end of year	55,358,525	54,236,069
	87,490,246	86,236,069
Allowance for probable losses	(20,889,954)	(20,889,954)
	66,600,292	65,346,115
	158,145,473	148,294,138

(Forward)

	2003	2002
Investments - At Cost:		
Balance at beginning of year	₱270,156,627	₱332,749,015
Additions and transfers during the year	7,635,410	476,255
Disposals during the year	(6,449,678)	(63,068,643)
Balance at end of year (subscriptions payable on which amounted to ₱3,750,000 - see Note 16)	271,342,359	270,156,627
Allowance for probable losses	(11,459,652)	-
	259,882,707	270,156,627
	₱418,028,180	₱418,450,765

The details of investments in real estate follow:

	2003	2002
Land	₱1,701,383,348	₱1,689,031,067
Condominium units - net of accumulated depreciation of ₱10,603,838 in 2003 and ₱11,408,678 in 2002	50,584,123	113,656,053
	₱1,751,967,471	₱1,802,687,120

Consolidated depreciation on condominium units amounted to ₱1 million in 2003 and ₱2 million in 2002 and 2001 (see Note 19).

The details of the Group's equity in the net assets of its associates and jointly controlled entities and the corresponding percentage of ownership follow:

	Percentage of Ownership		Equity in Net Assets	
	2003	2002	2003	2002
Associates:				
Bachy Soletanche Philippines Corporation	49.00	49.00	₱43,119,553	₱47,183,812
Vulcan Materials Corporation (Vulcan)	49.00	49.00	27,262,320	18,442,320
Systems Powermark Corporation	50.00	50.00	12,981,605	11,874,615
Obayashi Philippines Corporation (OPC)	39.55	39.55	5,498,695	3,800,720
Eco Process & Equipment Philippines, Inc.	50.00	50.00	1,177,338	1,108,321
Raco-Haven Automation Philippines, Inc.	44.11	44.11	1,505,670	538,235
Subic Water and Sewerage Company, Inc. (Subic Water)	40.00	40.00	-	-
AG&P	46.00	46.00	-	-
			91,545,181	82,948,023
Jointly Controlled Entities:				
DMCI/WPC Joint Venture	50.00	50.00	39,108,452	38,399,396
Obayashi-DMCI Joint Venture	40.00	40.00	13,475,433	12,793,821
Others	various	various	14,016,407	14,152,898
			66,600,292	65,346,115
			₱158,145,473	₱148,294,138

Summarized financial information pertaining to the Group's significant joint ventures follow:

	2003	2002
DMCI/WPC Joint Venture		
Current assets	₱9,102,953	₱18,882,120
Noncurrent assets	77,577,402	81,403,534
Current liabilities	8,463,452	23,486,863
Revenue	14,865,058	15,928,106
Costs and expenses	13,446,946	14,710,857
Net income	1,418,112	1,217,249
	2003	2002
Obayashi-DMCI Joint Venture		
Current assets	₱58,193,674	₱111,084,559
Noncurrent assets	4,087,638	5,347,543
Current liabilities	28,592,730	84,447,549
Revenue	7,742,672	490,536,669
Costs and expenses	6,038,643	488,041,759
Net income	1,704,029	2,494,910

Investments in Associates - At Equity

Vulcan

In 2002, DMCI exercised its pre-emptive right to subscribe to additional shares, resulting in a retention of its equity ownership in Vulcan of 49%.

OPC

On January 15, 2001, OPC's application for its increase in authorized capital stock was approved by the Securities and Exchange Commission. The increase was paid by way of stock dividends and new stock subscriptions. DMCI, however, waived its pre-emptive right to subscribe to additional shares; resulting in a dilution of its equity ownership in OPC from 56% in 2000 to only 39.55% in 2001. As a result of the foregoing, OPC's financial position and results of operations were deconsolidated from the 2001 consolidated financial statements. On March 24, 2003, OPC's BOD approved the cessation of OPC's operations effective April 30, 2003. The activities of OPC after this date consisted mainly of collection of receivables, disposition of assets and payment of liabilities.

Subic Water

On January 22, 1997, PDI subscribed to 3,262,320 shares at the par value of ₱10 per share for an aggregate value of ₱33 million in Subic Water, a joint venture company with Subic Bay Metropolitan Authority (a government-owned corporation), Olongapo City Water District, and Cascal Services Limited (a company organized under the laws of England). The agreement executed by the parties on November 24, 1996 stipulated, among others, that PDI shall have an equity participation equivalent to 40% in Subic Water amounting to ₱75 million (based on the initial subscribed and paid-in capital of ₱187 million). The balance of PDI's committed subscription to Subic Water of ₱38 million (net of additional subscription payment of ₱4 million

in 1998) is expected to be paid on or before the second anniversary of the said effective date. As of April 27, 2004, such committed subscription has not yet been paid.

As of December 31, 2003 and 2002, PDI's accumulated equity in the net losses of Subic Water exceeded the carrying amount of its related investment. Thus, no further share in the net losses of Subic Water is recorded.

AG&P

As of December 31, 2001, the Group's accumulated equity in net losses of AG&P equals the carrying amount of its investment. The Group discontinued the recognition of its share of further losses in AG&P as it is not committed to provide financial support to the latter. Unrecognized losses, before adjustments for probable losses and other expenses, amounted to ₱278 million, ₱172 million and ₱105 million, as of December 31, 2003, 2002 and 2001, respectively.

On January 31, 2002, AG&P filed a petition for rehabilitation (after the approval of AG&P's stockholders and BOD on January 29, 2002) with the RTC of Batangas City. On February 21, 2002, the RTC issued a stay order prohibiting AG&P from selling, encumbering, transferring or disposing any of its properties in any manner except in the ordinary course of business.

On March 11, 2003, the RTC approved AG&P's updated rehabilitation plan that included, among others, the settlement of the Group's claims from AG&P.

On March 31, 2003, Philippine National Bank (PNB), AG&P's creditor, filed a Motion for Reconsideration with the court for the modification of the updated rehabilitation plan due to, among others, the non-viability of the proposed transfer of the 20 hectares at Batangas Fabrication Yard (BFY) to PNB via a dacion en pago payment scheme with option to repurchase and to lease it back for 5 years with exclusivity provision. In addition, PNB suggested to the court the following modifications to the updated rehabilitation plan:

- (a) AG&P should remit to PNB a part of the advance rentals AG&P received as payment in the lease transaction entered into between AG&P and Babcock Hitachi Philippines, Inc. in July 2001 totaling ₱18 million with interest;
- (b) AG&P should proportionately pay all creditors, depending on their respective credit exposure, whatever cash inflows it will receive from all the transactions it will enter into, except those that will come from sale or lease of properties covered by the Mortgage Trust Indenture (MTI) which should be paid to MTI banks, especially the ₱70 million earmarked for its employees, from the time the instant Petition was filed and up to the time the approved rehabilitation plan subsists; and

- (c) PNB will accede to the proposal of AG&P to restructure the latter's loan on the condition that the loan obligation of AG&P with PNB shall consistently earn interest depending on the prevailing rates in the market, otherwise, the approved "suspension of interest charges on all interest-bearing obligations from February 2002 up to December 2002 pending review and approval of AG&P's rehabilitation plan by the court" and "restructuring of outstanding PNB loans for a ten-year period with 2 years grace period in the payment of principal, interest rate for the first 5 years is proposed at 6% and 12% for the next 5 years" should be disapproved and deleted.

On May 2, 2003, the Receiver filed a Manifestation and Compliance with the court on the Receiver's meeting with the officers of PNB and representatives of AG&P on the issues raised by PNB in its Motion for Reconsideration. The Receiver manifests, among others, that:

- (a) PNB agreed to withdraw its objections to the payment of the advance lease proceeds from Amstel-Phil Shipbreaking Corporation, (AG&P's potential lessee) the amount of ₱70 million to the labor union;
- (b) AG&P and PNB agree to subject the issue of interest during the restructuring period to further discussions; and
- (c) PNB is withdrawing its objection since AG&P had withdrawn its proposal to transfer the BFY property by way of dacion en pago arrangement to the former.

Investments - At Cost

Montecito

On October 6, 2003, Montecito filed a petition for rehabilitation (after the approval of Montecito's stockholders and BOD in September 2003) with the RTC of Calamba City. On October 9, 2003, the RTC issued a stay order which provides among others, prohibiting Montecito from selling, encumbering, transferring or disposing any of its properties except in the ordinary course of business and making any payment of its liabilities outstanding as of October 6, 2003.

Jointly Controlled Entities

As of December 31, 2003 and 2002, the jointly controlled entities, which were entered into by the Group with its joint venture partners, have sufficient working capital for their operations. Accordingly, no fund contributions were required from the Group and its joint venture partners as provided for by the related joint venture agreements.

Real Estate Properties

The Group's investments in real estate properties - land (with an aggregate carrying value of ₱423 million in 2003 and 2002, respectively) and investment in real estate properties - condominium units (with a net book value of ₱22 million as of December 31, 2003 and 2002) were used as collateral under real estate mortgages to secure the indebtedness of the Group to local banks and a foreign supplier (see Notes 13 and 15).

11. Property, Plant and Equipment

The movement in this account follow:

	Land and Land Improvements	Buildings and Building Improvements	Construction Equipment, Machinery and Tools	Office Furniture, Fixtures and Equipment	Transportation Equipment	Conventional and Continuous Mining Equipment
Cost						
January 1	₱684,804,705	₱1,168,148,755	₱2,654,477,423	₱166,009,820	₱120,333,094	₱4,666,069,737
Additions	463,949	9,768,761	16,339,828	2,355,922	8,012,133	220,060,804
Disposals/transfers	(1,641,876)	(6,854,948)	(351,993,855)	(1,412,339)	(8,877,834)	(224,521,624)
December 31	683,626,778	1,171,062,568	2,318,823,396	166,953,403	119,467,393	4,661,608,917
Accumulated Depreciation Depletion and Amortization						
January 1	314,249,226	710,941,153	2,430,703,072	160,287,115	108,694,925	3,120,343,674
Depreciation, depletion and amortization	15,814,098	40,086,801	29,307,883	2,434,954	5,413,431	376,598,069
Disposals	-	-	(345,251,194)	(736,627)	(8,732,973)	(144,521,624)
December 31	330,063,324	751,027,954	2,114,759,761	161,985,442	105,375,383	3,352,420,119
Net Book Value	₱353,563,454	₱420,034,614	₱204,063,635	₱4,967,961	₱14,092,010	₱1,309,188,798

	Mining Properties, Mine Exploration and Development Costs	Leasehold Improvements	Construction in Progress	Total 2003	Total 2002
Cost					
January 1	₱503,388,113	₱59,120,394	₱49,756,947	₱10,072,108,988	₱9,978,548,526
Additions	-	-	-	257,001,397	350,613,864
Disposals/transfers	-	-	(5,775,543)	(601,078,019)	(257,053,402)
December 31	503,388,113	59,120,394	43,981,404	9,728,032,366	10,072,108,988
Accumulated Depreciation Depletion and Amortization					
January 1	153,161,834	43,962,917	-	7,042,343,916	6,668,016,041
Depreciation, depletion and amortization	54,529,901	7,580,973	-	531,766,110	569,409,943
Disposals	-	-	-	(499,242,418)	(195,082,068)
December 31	207,691,735	51,543,890	-	7,074,867,608	7,042,343,916
Net Book Value	₱295,696,378	₱7,576,504	₱43,981,404	₱2,653,164,758	₱3,029,765,072

The assets of Semirara (included in the above movement analysis), which are carried at adjusted cost (arising from its quasi-reorganization) follow:

	Land and Land Improvements	Buildings and Building Improvements	Conventional and Continuous Mining Equipment	Total 2003	Total 2002
At Adjusted Cost	₱146,388,235	₱486,594,149	₱581,857,987	₱1,214,840,371	₱1,214,840,371
Accumulated Depreciation and Amortization on Adjusted Cost					
January 1	103,861,959	260,663,216	320,876,249	685,401,424	623,832,640
Depreciation and amortization	7,501,724	26,442,730	28,062,855	62,007,309	61,568,784
December 31	111,363,683	287,105,946	348,939,104	747,408,733	685,401,424
Net Book Value at Adjusted Cost	₱35,024,552	₱199,488,203	₱232,918,883	₱467,431,638	₱529,438,947

Land and land improvements of the Group with an aggregate carrying value of ₱257 million as of December 31, 2003 and 2002, respectively, and construction equipment with a carrying value of ₱1 million as of December 31, 2003 and 2002, respectively, were used as collateral to secure the indebtedness of Semirara to local banks and a foreign supplier, bank loans of PDI and DMCI's notes payable to preferred shareholders of the Company (see Note 15).

Semirara's conventional and continuous mining equipment with a carrying value of ₱185 million and ₱253 million as of December 31, 2003 and 2002, respectively, were pledged as collateral under chattel mortgages to secure the indebtedness of Semirara to the local banks and a foreign supplier (see Note 15).

Certain machinery and equipment with a carrying value of about ₱122 million in 2003 and 2002 was used as a collateral to secure the indebtedness of Contech (see Note 15).

Consolidated depreciation, depletion and amortization on property, plant and equipment (including depreciation on the adjusted cost of ₱62 million in 2003 and 2002 and ₱61 million in 2001) amounted to ₱532 million in 2003, ₱569 million in 2002 and ₱694 million in 2001 (see Note 19).

12. Other Noncurrent Assets

The details of other noncurrent assets follow:

	2003	2002 (As restated)
Deposits in North Luzon Railways Corporation (Northrail)	₱300,000,000	₱300,000,000
Deferred stripping and development costs - net of accumulated amortization of ₱28,953,091 in 2003 and ₱18,860,767 in 2002 (see Note 19)	193,412,727	156,575,921
Refundable deposits	55,130,431	41,025,512
Deferred tax assets - net (see Note 23)	51,104,906	26,311,426
Restricted cash (see Note 4)	3,330,744	-
Others (see Note 3)	13,582,465	21,323,693
	₱616,561,273	₱545,236,552

Deposits in Northrail of ₱300 million represent contributions made by the Group relative to a joint venture with the Bases Conversion Development Authority (BCDA) (a government-owned corporation), Philippine National Railways and a consortium of foreign investors and local partners which would undertake the construction of a multi-phase double-track railway system. The covering joint venture agreement provided, among others, the increase in capitalization of Northrail, the primary purpose of which is to construct, operate and manage such railway system. The deposits on subscriptions made by the joint venture partners are committed to be converted into equity upon the approval of increase in capital stock of Northrail.

In 2001, due to the uncertainty surrounding the Northrail project, the Group decided to pull out of the joint venture. As of April 27, 2004, the Group is still negotiating with BCDA for the recovery of its contribution to Northrail, which the Group's management believes, is fully recoverable.

13. Notes Payable

Notes payable consist of the following:

	2003	2002
Bank loans	₱744,647,579	₱661,437,194
Payables to related parties (see Note 25)	78,969,912	82,250,574
	₱823,617,491	₱743,687,768

The Group's bank loans consist of peso-denominated short-term borrowings from local banks which bear interest at prevailing market rates and are payable on monthly, quarterly and lump sum bases on various maturity dates within the next 12 months after the balance sheet dates. The bank loans are generally unsecured, except for ₱240 million in 2003 and ₱246 million in 2002, which are secured by a real estate mortgage over the Group's housing and condominium units and DMCI's investment in real estate (see Notes 8 and 10); a deed of assignment on certain real estate receivables of PDI, DMCI and Hampstead (see Note 5); corporate guarantee and suretyship agreement issued by the Company and DMCI; and PDI, DMCI and Hampstead's customers' post-dated checks.

The Group's agreements with local banks contain some or all of the following restrictions relating to, among others: purchase of issued and outstanding capital stock; disposal of encumbered properties; change in the ownership or management and nature of its business; dividend declaration and distribution; guarantees; incurrence of additional liabilities; and merger and consolidation.

As of December 31, 2003 and 2002, the Group was in compliance with the loan covenants required by the banks.

14. Accounts and Other Payables

This account consists of the following:

	2003	2002
Accrued costs and expenses	₱1,238,730,100	₱1,225,277,384
Payables to subcontractors	660,164,715	436,933,791
Payables to suppliers	657,914,270	559,513,155
Customers' deposits	124,477,084	134,840,834
Acceptances and trust receipts payable	13,058,242	48,069,079
Other payables (see Note 23)	137,375,870	183,778,932
	₱2,831,720,281	₱2,588,413,175

Accrued costs and expenses consists mainly of accrual of expenses, costs of construction contracts and Semirara's liabilities to Department of Energy (DOE).

Semirara's liabilities to DOE represents the share of DOE in the gross revenue from Semirara's coal production (including accrued interest computed at 14% per annum on the outstanding balance) computed in accordance with the coal operating contract between Semirara and DOE dated July 11, 1997 as amended on January 16, 1981. The contract is for a maximum period of 35 years (inclusive of the developmental stage and renewals) up to July 2012.

In 2002, DOE through the Energy Resources Development Bureau approved the exclusion of coal produced and used solely by Semirara to feed its power plant, in determining the amount due to DOE.

Customers' Deposits

Semirara has a Memorandum of Agreement (MOA) with National Power Corporation (NPC), entered into on September 28, 1990, whereby Semirara agreed to provide NPC 150,000 metric tons (MT) Select coal or its run of mine coal equivalent, free of shipping cost to NPC, over a period of seven consecutive years in equal tonnage beginning 1993 or when Calaca II power plant starts operations, whichever was earlier. A significant portion of customers' deposits amounting to ₱85 million and ₱101 million as of December 31, 2003 and 2002, respectively, represent the balance of NPC's payments for the unlifted coal totaling 150,000 MT of Selectively Mined Coal (Select) priced at ₱179 million which formed part of the minimum contracted quantity that NPC agreed to purchase for the year 1990 under the Coal Supply Agreement (CSA) (see Note 27) between Semirara and NPC. The total coal lifted under such MOA totaled to 81,404 MT and 68,249 MT, of Select coal equivalent or its peso equivalent of ₱94 million and ₱78 million as of December 31, 2003 and 2002, respectively.

15. Long-term Debt

Long-term debt pertains to the following obligations:

	2003	2002
Long-term:		
Bank loans	₱753,041,367	₱684,785,332
Payables to foreign suppliers	753,126,488	918,918,448
Notes payable to preferred shareholders	513,719,256	571,228,721
Acceptances and trust receipts payable	350,173,766	397,441,099
	2,370,060,877	2,572,373,600
Less current portion of:		
Bank loans	306,446,662	161,562,105
Payables to foreign suppliers	255,447,968	253,837,104
Notes payable to preferred shareholders	1,943,287	18,557,341
Acceptances and trust receipts payable	208,497,411	219,067,585
	772,335,328	653,024,135
	₱1,597,725,549	₱1,919,349,465

Bank Loans

The Group's bank loans consist of peso-denominated long-term borrowings from local banks which are mostly secured, as shown below:

- (a) The bank loan drawn by PDI amounting to ₱247 million and ₱70 million in 2003 and 2002, respectively, bears interest at 12%. This loan is payable in various maturity dates up to 2007 and is secured by a real estate mortgage over PDI's real estate for sale and development (see Note 8);
- (b) Semirara's bank loans amounting to ₱354 million and ₱462 million as of December 31, 2003 and 2002, respectively, include a peso-denominated loan from a local bank which bears interest at 91-day T-bill rate + 3.25%. These loans are payable in 19 equal quarterly amortizations or 6 years from the date of availment, including an 18-month grace period. Also, the loans are secured by real estate mortgages over PDI's land for sale and development, DMCI's investments in real estate properties and a suretyship agreement issued by DMCI (see Notes 8 and 10). The agreement also provides for the maintenance of financial ratios at a certain level.

In 2002, Semirara's bank loans also include a loan reclassified from the "Notes payable" account under the current liabilities section of the consolidated balance sheets in accordance with the restructuring agreement with a local bank. The loan now bears interest at 91-day T-Bill rate plus 5% per annum spread and is payable in 11 quarterly installments starting June 2002 until December 2004. Further, this loan is secured by a chattel mortgage on the three floating vessels owned by DMC Construction Equipment Resources, Inc., a related party, a continuing suretyship agreement issued by the Company and an assignment of trade receivables from NPC up to the extent of the loan (see Note 5). The agreement also provided for the maintenance of Semirara's operational deposit account with the said bank and the conditional waiver of penalties amounting to ₱13 million, which was accrued as of December 31, 2002. In the event of default, said penalties shall automatically be reinstated to form part of the obligation to be called due and demandable;

- (c) Contech South's outstanding bank loan amounting to ₱100 million in 2003 and 2002 was obtained to partly finance the second phase of its hollow-core wall panel manufacturing project. The loan bears interest at 12% and is payable in 16 equal quarterly installments, starting 2001 until 2003. The loan is secured by a real estate mortgage over DMCI's investment in real estate properties with an aggregate book value of ₱18 million in 2003 and 2002 (see Note 10), a first lien chattel mortgage over certain machinery and equipment acquired out of the proceeds of the loan (see Note 11), a continuing suretyship by the Company, and endorsement or assignment in favor of the creditor bank of any insurance policies covering the mortgaged assets. As of April 27, 2004, Contech is still negotiating for the payment of the loans; and
- (d) The bank loans drawn by Hampstead amounting to ₱51 million in 2003 and ₱53 million in 2002, represent net proceeds from the sale with recourse of a portion of Hampstead's contracts receivable to local banks pursuant to receivable purchase agreements entered into by Hampstead with such banks. Such loans bear interest at 16% and are payable in various maturity dates. The loans are secured by a real estate mortgage over Hampstead's

condominium units with a carrying value of ₱85 million in 2003 and ₱107 million in 2002 (see Note 8); a deed of assignment over Hampstead's related contracts receivable (see Note 5); and a suretyship agreement executed by DMCI, in favor of the banks to further secure the collectibility of the collateralized receivables.

Acceptances and Trust Receipts Payable

Acceptances and trust receipts payable include Semirara's liabilities amounting to ₱350 million and ₱397 million in 2003 and 2002, respectively, under a three-year deferred usance letters of credit obtained from a local bank for the acquisition of various mining equipment.

In 2001, the trust receipts and acceptances payable of Semirara with this local bank were restructured. The loan now bears interest at 18.50%, payable until October 2007, and is secured by a surety agreement by the Company, chattel mortgages over DMCI's construction equipment and real estate mortgages over DMCI's investment in real estate properties and land and land improvements (see Notes 10 and 11).

In 2002, Semirara's restructuring agreements with two other local banks have been finalized. The loan with one of the local banks now bears interest at 91 day T-bill rate + 3.25%, and is payable in 19 quarterly installments until December 2008. The agreement with this local bank also provided that, should the spin-off of Semirara's assets and liabilities to its wholly owned subsidiary ("NewCo"), which is in the process of incorporation, pushes through, the term loan shall be assumed by NewCo and the annual capital expenditures for the first 3 years shall not exceed ₱223 million. The other restructured loan now bears interest at prevailing market rates and payable in 18 equal quarterly installments starting February 2003 until May 2007. Semirara's loans with the two local banks are secured by real estate mortgages over DMCI's investments in real estate properties and land and land improvements, chattel mortgages over Semirara's conventional and continuous mining equipment with a carrying value of ₱30 million and ₱40 million as of December 31, 2003 and 2002, respectively, and a surety agreement issued by the Company (see Notes 10 and 11).

Notes Payable to Preferred Shareholders

The Group's long-term notes payable as of December 31, 2003 include outstanding peso-denominated obligations of the Company, DMCI and PDI to certain preferred shareholders of the Company amounting to ₱45 million, ₱429 million and ₱40 million, respectively, which are payable in various maturity dates starting February 2007 until April 2009, pursuant to loan agreements evidenced by Promissory Notes (PNs) dated April 7, 2002 entered into by the Company, DMCI and PDI in connection with the redemption of 510,555 preferred shares under Options A and B of the Exchange Offer (see Note 17). The obligations of DMCI and PDI are secured by real estate mortgages over DMCI's and PDI's real estate for sale and development (with a total carrying value of ₱382 million in 2003 and ₱389 million in 2002), and certain real estate properties of other related parties while the obligations of the Company are unsecured.

In 2003 and 2002, the details of the foregoing PNs are presented below:

	2003	2002
Prevailing interest rate of the 91-day T-bill plus a spread of up to 2%, payable in quarterly payments in arrears	₱237,783,471	₱295,292,936
Fixed interest at 13%, payable in quarterly payments in arrears	272,244,885	272,244,885
Fixed interest at 13% for the first 5 years; prevailing interest rate of the 91-day T-bill plus a spread of up to 3% for the last 2 years, payable in quarterly payments in arrears	3,690,900	3,690,900
	₱513,719,256	₱571,228,721

The loan agreements on the long-term notes payable of the Group with such preferred shareholders also provide for restrictions relating to, among others: encumbrances on the properties; change in the nature of business; change in the ownership or management; merger or consolidation; loans, investments and advances; articles of incorporation and by-laws; and maintenance of financial ratios at certain levels.

Payables to Foreign Suppliers

The Group's payables to foreign suppliers include Semirara's foreign currency-denominated long-term obligations of about ₱312 million (US\$6 million) in 2003 and ₱423 million (US\$8 million) in 2002 to a foreign supplier arising from acquisitions of certain mining equipment, parts and supplies (see Note 11). These notes bear interest based on SIBOR + 3.75% and are payable in 18 consecutive quarterly installments until December 15, 2006. Further, the loans are secured by real estate mortgages over DMCI's investments in real estate properties, chattel mortgages over DMCI's construction equipment and Semirara's conventional and continuous mining equipment with a total carrying value of ₱140 million and ₱186 million as of December 31, 2003 and 2002, respectively, and a letter of guarantee issued by the Company (see Notes 10 and 11). The agreement also provided for the maintenance of a financial ratio at a certain level.

The Group's payables to foreign suppliers also include Semirara's foreign currency-denominated long-term obligations amounting to about US\$7 million in 2003 and US\$10 million in 2002 arising from the acquisition of conventional mining equipment (see Note 11). This obligations bear interest at 8.25% plus establishment fee of 2.75% and commitment fee of 1% and is payable for 5 years in 10 equal semi-annual installments after the 12-month grace period. Title to the mining equipment amounting to ₱489 million in 2002 and ₱394 million in 2001 will pass to Semirara only upon full settlement of its obligations. The amount due is secured by a corporate guarantee issued by the Company and the existence of the CSA (see Note 27) evidencing a 10-year contract for a supply of up to 2,400,000 MT of coal per year.

In 2003, Semirara acquired on account from the same foreign supplier units of conventional and continuous mining equipment. The foreign-currency denominated loan amounting to US\$1.5 million is payable in 18 months after a three months grace period with interest at 5.75% per annum.

As of December 31, 2003 and 2002, the Group was in compliance with the loan covenants required by the creditors.

16. Other Noncurrent Liabilities

The details of this account consist of:

	2003	2002
Payables to property sellers	₱261,810,810	₱274,083,329
Deferred tax liabilities (see Note 23)	65,548,247	279,643,167
Deferred revenue on real estate sales	45,163,728	21,858,210
Subscriptions payable (see Note 10)	3,750,000	3,750,000
	₱376,272,785	₱579,334,706

Payables to Property Sellers

Payables to property sellers represent the balance of the Group's obligations to various real estate property sellers for the acquisition of certain parcels of land and housing and condominium units (see Note 8). The terms of the deeds of absolute sale covering the land acquisitions provided that such obligations are payable only after the following conditions, among others, have been complied with: (a) presentation by the property sellers of the original transfer certificates of title covering the purchased parcels of land; (b) submission of certificates of non-delinquency on real estate taxes; and (c) physical turnover of the acquired parcels of land to the Group.

17. Capital Stock

The changes in the number of shares follow:

	2003	2002
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized	100,000,000	100,000,000
Issued		
Balance at beginning of year	1,288,265	2,400,000
Retirement of preferred shares	(836,575)	(1,111,735)
Balance at end of year	451,690	1,288,265

(Forward)

	2003	2002
Common stock - ₱1 par value		
Authorized	5,900,000,000	5,900,000,000
Issued	2,255,494,000	2,255,494,000
Preferred shares held in treasury		
Balance at beginning of year	(945,125)	(729,416)
Redemption of preferred shares	(75,150)	(1,327,444)
Retirement of preferred shares	836,575	1,111,735
Balance at end of year	(183,700)	(945,125)

The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002.

On April 1, 2002, the Company's BOD approved the Exchange Offer involving the redemption of all of the Company's outstanding preferred shares totaling 1,670,584 shares as of December 31, 2001, which were due for redemption on April 7, 2002 (Final Redemption Date). Such Exchange Offer, which was formally presented to the preferred shareholders on April 5, 2002, consisted of any one or more of the following Options:

Option A - Secured 5-Year Term Loan

Redemption of preferred shares through the issuance of PNs by the Company, DMCI or PDI at a valuation of ₱1,000 per share, equivalent to the original issue price of the preferred shares. The PNs, which are value dated April 7, 2002, shall be subject to a floating interest rate based on prevailing 91-day T-bill rate plus a 2% spread; and shall be secured by a mortgage on certain real estate properties owned by the Group and related parties.

As of December 31, 2003, the Group issued PNs amounting to ₱238 million (net of payments of ₱71 million) for the redemption of 310,700 preferred shares, respectively, under Option A (see Note 30).

Option B - Secured 7-Year Term Loan

Redemption of preferred shares through the issuance of PNs by the Company, DMCI or PDI at a valuation of ₱1,367 per share, equivalent to the original issue price of the preferred shares plus accumulated and nonconversion premium. The PNs, which are also value dated April 7, 2002, shall be subject to either of the following interest rates at the option of the preferred shareholders: (a) floating interest rate based on prevailing 91-day T-bill rate plus a 3% spread; (b) fixed interest at 13% for the first 5 years of the loan and floating for the remaining 2 years at a rate equivalent to that contemplated in letter (a); and (c) fixed interest at 13% for the entire 7-year term; and shall be secured by a participation in a mortgage trust indenture covering various accounts receivables, inventory and equipment owned by the Company and/or its subsidiaries and related parties; and/or a mortgage on certain provincial real estate properties.

As of December 31, 2003, the Group issued PNs amounting to ₱276 million for the redemption of 201,855 preferred shares under Option B (see Note 30).

Option C - Asset for Share Exchange

Redemption of preferred shares in exchange for residential and office units, equipment and/or accounts receivable at a valuation of ₱1,112 per share (purchase price), equivalent to the original issue price of the preferred shares plus accumulated and current dividends. The exchange shall be carried out with the subject assets valued at their selling price or fair market value. In the event that the total value of the assets elected by the preferred shareholders exceeds the total purchase price of the preferred shares, the resulting residual amount shall be paid by such shareholders to the Company in cash. Conversely, should the total purchase price exceeds the asset value, the residual amount shall be paid by the Company to the shareholders through either of Options A, B or D.

As of December 31, 2003, the Group redeemed 603,879 preferred shares under Option C in exchange for Asian Hospital, Inc. (AHI) shares, certain construction equipment amounting to ₱50 million and other assets amounting to ₱586 million in favor of Dacon Corporation (Dacon), a major stockholder (see Note 30).

Option D - Cash Payment

Redemption of preferred shares for cash at a price of ₱775 per share, equivalent to the closing market price of such preferred shares on April 1, 2002 up to a maximum of ₱72 million (cap). Should the total amount of all the preferred shares of the holders electing this option exceed the cap, the ₱72 million shall be allocated among all accepting shareholders on a pari passu basis; with the remaining preferred shares to be purchased under any of Options A, B or C.

As of December 31, 2003 and 2002, the Group redeemed 286,160 and 213,010 preferred shares, respectively, under Option D.

As of December 31, 2003, the outstanding obligations of the Group relative to the issuance of PNs to certain preferred shareholders of the Company amounted to ₱514 million (see Note 15).

As of December 31, 2003, 2002 and 2001, dividends in arrears for preferred shares amounted to ₱33 million, ₱92 million and ₱130 million, respectively.

As of April 27, 2004, the Group has redeemed 2,154,310 preferred shares (including 596,895 preferred shares which were redeemed prior to the Final Redemption Date and 22,300 preferred shares which were subsequently redeemed in 2004 under Option D).

18. Sales and Services

This account consists of:

	2003	2002	2001
Coal sales (see Note 27)	₱2,177,241,132	₱1,517,087,114	₱1,360,355,866
Construction contracts (see Note 25)	1,948,531,466	1,343,032,243	2,316,520,900
Real estate sales	470,404,931	328,982,155	346,058,754
Merchandise sales and others	19,653,002	28,484,680	43,085,602
	₱4,615,830,531	₱3,217,586,192	₱4,066,021,122

19. Costs of Sales and Services

This account consists of:

	2003	2002	2001
Construction contracts (see Note 25)	₱1,720,573,564	₱1,305,984,905	₱2,116,337,561
Coal sales (see Note 27)	1,476,929,967	1,095,479,441	969,566,108
Real estate sales	349,098,992	216,391,961	263,733,459
Merchandise sales and others	18,383,216	16,137,676	39,864,775
	₱3,564,985,739	₱2,633,993,983	₱3,389,501,903

Depreciation, depletion and amortization included in the consolidated statements of income follow:

	2003	2002	2001
Included in:			
Coal sales	₱427,588,926	₱399,907,592	₱314,461,652
Construction contracts	86,998,949	141,034,378	333,847,711
Operating expenses (see Note 20)	28,283,319	38,874,528	48,233,377
	₱542,871,194	₱579,816,498	₱696,542,740

	2003	2002	2001
Depreciation and/or amortization from:			
Property, plant and equipment (see Note 11)	₱531,766,110	₱569,409,943	₱694,495,676
Investments in condominium units (see Note 10)	1,012,760	2,387,968	2,047,064
Deferred stripping and development costs (see Note 12)	10,092,324	8,018,587	-
	₱542,871,194	₱579,816,498	₱696,542,740

Salaries, wages and employee benefits included in the consolidated statements of income follow:

	2003	2002	2001
Included in:			
Costs of construction contracts	₱371,553,582	₱339,002,631	₱431,634,738
Operating expenses (see Note 20)	132,543,814	149,131,566	138,633,231
Costs of coal sales	130,580,212	109,655,629	107,401,346
	₱634,677,608	₱597,789,826	₱677,669,315

20. Operating Expenses

This account consists of:

	2003	2002 (As restated)	2001 (As restated)
Salaries, wages and employee benefits (see Notes 19 and 26)	₱132,543,814	₱149,131,566	₱138,633,231
Provision for doubtful accounts, inventory obsolescence and losses, probable losses on investments and decline in value of housing and condominium units	130,385,443	223,332,047	74,045,057
Outside services	68,377,780	36,281,100	34,266,659
Government share	65,221,117	27,052,157	42,340,648
Shipping, hauling and shiploading costs	54,633,961	34,430,953	61,418,877
Advertising	30,865,672	22,140,948	31,410,124
Depreciation and amortization (see Note 19)	28,283,319	38,874,528	48,233,377
Taxes and licenses	24,092,125	22,090,673	24,168,796
Communications, light and water	17,759,528	11,735,700	12,989,562
Commission	17,060,321	7,118,673	567,954
Entertainment, amusement and recreation	12,714,061	6,321,047	3,964,488
Rent	12,358,626	22,427,700	22,490,337
Supplies	7,862,440	4,273,125	6,590,756
Transportation and travel	6,671,750	4,402,391	1,787,234
Repairs and maintenance	6,361,810	11,187,363	11,554,401
Insurance	2,866,792	2,022,696	1,438,794
Inventories written-off	-	44,270,114	-
Miscellaneous	17,624,139	46,806,481	59,426,010
	₱635,682,698	₱713,899,262	₱575,326,305

21. Other Operating Income

This account consists of:

	2003	2002	2001
Loss on sale of property and equipment and investments - net	(₱50,913,033)	(₱25,694,600)	(₱13,976,546)
Rental income	30,863,463	18,719,184	-
Indent commission	1,231,481	10,140,607	7,915,263
Reversal of allowance for doubtful accounts	-	22,400,272	-
Miscellaneous - net	58,919,267	77,567,094	65,817,962
	₱40,101,178	₱103,132,557	₱59,756,679

22. Other Charges

This account consists of:

	2003	2002	2001
Interest expense (see Notes 2, 13 and 15)	₱354,278,164	₱315,978,046	₱344,773,783
Foreign exchange loss (gain) - net	36,975,433	31,958,010	(11,217,725)
Interest income	(7,557,886)	(26,856,148)	(114,181,378)
	₱383,695,711	₱321,079,908	₱219,374,680

23. Income Taxes

The components of the Group's deferred tax assets and liabilities as of December 31, 2003 and 2002 follow:

	2003	2002 (As restated)
Deferred tax assets on:		
Allowance for:		
Doubtful accounts	₱97,162,039	₱236,759,651
Inventory obsolescence	14,493,165	14,314,624
NOLCO	42,850,432	499,346,839
Accrual of expenses	38,227,360	40,016,770
MCIT carryforward benefit	30,407,842	22,148,128
Accrued retirement costs	25,764,865	17,278,901
Unrealized foreign exchange loss - net	24,813,220	12,981,081
Preoperating expenses	7,173,491	4,784,144
Excess of tax over book basis of deferred gross profit on real estate sales	299,707	1,261,340
	281,192,121	848,891,478
Less valuation allowance	213,063,026	805,576,152
	68,129,095	43,315,326
Deferred tax liabilities on:		
Excess of book over tax income pertaining to construction contracts and real estate sales	(65,548,247)	(279,643,167)
Capitalized interest on real estate for sale and development deducted in advance	(2,732,580)	(1,482,261)
Others	(1,937,549)	(1,176,973)
	(70,218,376)	(282,302,401)
	(₱2,089,281)	(₱238,987,075)

The net current and noncurrent components of deferred tax assets and liabilities are included in the following accounts in the consolidated balance sheets:

	2003	2002
Other current assets (see Note 9)	₱15,663,164	₱16,565,874
Other noncurrent assets - net (see Note 12)	51,104,906	26,311,426
Accounts and other payables (see Note 14)	(3,309,104)	(2,221,208)
Other noncurrent liabilities (see Note 16)	(65,548,247)	(279,643,167)
	(₱2,089,281)	(₱238,987,075)

The net benefit from income tax shown in the consolidated statements of income consists of:

	2003	2002	2001
Current	₱72,896,628	₱47,461,856	₱51,562,200
Deferred	(236,897,794)	(137,995,096)	(118,667,095)
	(₱164,001,166)	(₱90,533,240)	(₱67,104,895)

The reconciliation of the statutory income tax rate to the effective income tax rate follows:

	2003	2002 (As restated)	2001 (As restated)
Statutory income tax rate	32.00%	(32.00%)	(32.00%)
Adjustments for:			
Nondeductible depreciation expense on adjusted cost	32.26	5.22	48.00
Nondeductible (nontaxable) equity in net losses (earnings) of associates and jointly controlled entities	0.47	3.12	(0.15)
Nondeductible loss (nontaxable gain) on sale of investments in shares of stock	(1.02)	1.25	0.67
Interest income subjected to final tax at a lower rate - net	(1.18)	(0.46)	(12.20)
Nontaxable income on reversal of allowance for doubtful accounts	-	(1.90)	
Income from construction contracts already subjected to 8% final tax	-	-	(180.18)
Changes in valuation allowance on deferred tax assets	(331.83)	11.08	(17.24)
Others - net	2.56	(10.30)	28.29
Effective income tax rate	(266.74%)	(23.99%)	(164.81%)

24. Basic Earnings (Loss) Per Share

The following table presents information necessary to calculate basic earnings (loss) per share [in thousands except basic earnings (loss) per share]:

	2003	2002 (As restated)	2001 (As restated)
Net income (loss)	₱196,505	(₱222,159)	₱16,162
Less dividends on preferred shares	32,522	92,755	129,824
	163,983	(314,914)	(113,662)
Divided by weighted average number of common shares	2,255,494	2,255,494	2,255,494
Basic earnings (loss) per share	₱0.07	(₱0.14)	(₱0.05)

The assumed conversion of the Company's preferred shares has no dilutive effect in 2002 and 2001. The preferred shareholders' right of conversion expired in March 2002. Accordingly, no diluted earnings per share is presented in the accompanying consolidated statements of income for such years.

25. Related Party Transactions

In the regular course of business, the Group's significant transactions with related parties consisted primarily of the following:

- (a) Comprehensive surety, corporate and letters of guarantee issued by the Company and DMCI for various credit facilities granted to and for full performance of certain obligations by certain related parties (see Notes 13, 15 and 28). Such outstanding surety and/or guarantees amounted to ₱468 million and ₱678 million as of December 31, 2003 and 2002, respectively;
- (b) Certain assets of the Group, associates and other related parties were placed under accommodation mortgages to secure the indebtedness of the Group, its associates and other related parties (see Notes 8, 10, 11, 13 and 15);
- (c) Interest and noninterest-bearing cash and operating advances made by the Group to and from various associates and other related parties (see Notes 5 and 13);
- (d) Issuances of PNs and transfers of certain construction equipment by the Group in favor of certain preferred shareholders for the redemption of the Company's preferred shares (see Notes 15, 17 and 30); and
- (e) Redemption of the Company's preferred shares by the Group in 2002 under Options B and C in exchange for a PN amounting to ₱44 million in favor of DMCI Retirement Fund and other assets amounting to ₱586 million in favor of Dacon (see Notes 15, 17 and 30).

The consolidated balance sheets include the following amounts resulting from transactions with associates and other related parties:

	2003	2002
Trade receivables - construction - net (see Note 5)	₱318,655,033	₱449,092,631
Receivables from related parties (see Note 5)	1,173,602,549	1,232,415,302
Notes payable to related parties (see Note 13)	78,969,912	82,250,574
Payables to related parties	1,189,502,186	1,151,328,325

26. Retirement Plan

DMCI and Semirara have funded and formal noncontributory defined retirement plans covering their regular employees. Total retirement costs charged to operations by DMCI and Semirara amounted to ₱20 million in 2003 and 2002 and ₱16 million in 2001 which were included as part of "Salaries, wages and employee benefits" under the "Operating expenses" account in the consolidated statements of income (see Note 20).

Based on DMCI's recent actuarial valuation, the actuarial accrued retirement benefits amounted to ₱131 million while the fair market value of the plan assets amounted to ₱37 million, resulting in an unfunded actuarial liability of ₱94 million. The principal actuarial assumptions used to determine the retirement benefits include an investment yield and discount rate of 10% per year; annual salary increases of 10%; and normal retirement age of 60 years or 30 years of service, whichever comes earlier.

Semirara's latest actuarial valuation, on the other hand, disclosed accrued retirement benefits amounting to ₱25 million, while the fair value of the plan net assets amounted to ₱7 million resulting in an unfunded actuarial liability of ₱18 million. The principal actuarial assumption used to determine retirement benefits was a uniform rate of 10% for discount, salary increases and return on plan assets.

27. CSA with NPC

Semirara has a CSA (see Notes 14, 15, 18 and 19) with NPC dated May 19, 1995, whereby Semirara agreed to sell and NPC agreed to buy from Semirara the local coal requirements of its 2 x 300 megawatt coal-fired power plants at Calaca, Batangas (Calaca I & II). As provided for in the CSA, the annual contracted quantities are as follows: (a) 600,000 MT to a maximum of 900,000 MT commencing on July 1, 1995 until March 31, 1996 and (b) 1,050,000 MT to a maximum of 1,500,000 MT, after March 31, 1996 until March 31, 1997 or until Unong mine is declared depleted by Semirara. Since the Unong mine was not declared depleted by Semirara on March 31, 1997, the annual minimum contracted quantity of 1,050,000 was reduced to 900,000 MT starting April 1, 1997. However, upon its declaration that the Unong mine is depleted, Semirara shall supply NPC and NPC shall buy from Semirara an annual minimum quantity of 700,000 MT up to a maximum quantity of 1,200,000 MT of coal.

The CSA also provided for, among others, the pricing determination where the base price per MT of coal is computed based on a formula stipulated in the CSA. The base price is subject to adjustment for penalty or bonus, which is determined on a per delivery basis, based on a set of coal quality standards also as stipulated in the CSA. The CSA is effective for 15 years up to May 2010.

On January 1, 2002, the second amendment to the CSA was finalized. The amendments made, among others, follow:

- (a) supply of a revised annual minimum quantity of 1,200,000 MT up to a maximum quantity of 2,400,000 MT of coal, which was stipulated in the first amendment to the CSA dated January 15, 2001;
- (b) NPC to be entitled to an additional 3% discount in the event that its aggregate liftings in any given year exceeds 1,100,000 MT up to 2,400,000 MT of coal. Discount computation shall start on the month its aggregate liftings exceeds 1,100,000 MT of coal;
- (c) conversion of the mode of delivery from FOB-Semirara to C&F-Calaca to simplify the payment and rescheduling of coal deliveries to Calaca I and Calaca II;
- (d) maintenance by Semirara, at its own expense, of a minimum coal running inventory of at least 100,000 MT that meets the applicable coal specifications set forth in the second amendment of the CSA and ready in all aspects for loading and delivery to Calaca I and Calaca II;
- (e) limitation in the coal's sulfur content to 1.0% in compliance with the Clean Air Act and reduction in its ash specification to 20% to minimize coal handling problems;
- (f) inclusion of certain bases of NPC's exercise of its rights to reject and/or stop coal deliveries by Semirara to NPC, consequences of coal rejection in terms of title and risk of loss to coal delivered, relief from payment by NPC, and removal of delivered coal from NPC premises; and remedies for Semirara in the event NPC exercises such rights;
- (g) changes in (i) the pricing periods to a 3-month period which shall commence respectively at the beginning of a calendar quarter namely: January 1, April 1, July 1, and October 1; and (ii) the computation of the base price of Semirara's coal delivery including the determination of the initial and final base prices, to consider the volatile foreign exchange situation and the price of all NPC imported coal for Calaca plant during the pricing period;
- (h) changes in the computation of the adjustment for penalty or bonus from the base price per MT;
- (i) requirement for Semirara and NPC to reconcile payments made for coal deliveries for the immediate preceding pricing period within 30 calendar days from determination of the final base price by issuing a debit memo to the other;
- (j) deletion of the CSA provision requiring NPC to make an equity investment in Semirara in the event that the aggregate deliveries of coal meeting the coal specifications taken by NPC within any calendar year is less than 900,000 MT; and

- (k) inclusion of the provision allowing Semirara and the new owner or operator of Calaca I and Calaca II, in the event that Calaca I and Calaca II are privatized or its operation and maintenance is turned over to the private sector in conformity with the provisions of the Build-Operate-Transfer Law, as amended, or such other enabling statute, to review the provisions of the CSA, provided that in the conduct of such review, the prevailing policy on the development of the country's indigenous energy resources as set forth in the DOE Act of 1992 including changes thereto shall be observed.

Semirara's receivables from NPC arising from this agreement amounted to ₱252 million and ₱222 million as of December 31, 2003 and 2002, respectively, and included in the "Receivables" account under "Trade - National Power Corporation" in the consolidated balance sheets (see Note 5).

In 2003, the supplemental agreement (agreement) to the CSA was finalized. The agreement provided for among others, the services to be undertaken by Semirara for the coal handling operations at Calaca, Batangas as a result of the extension of coal delivery from C&F Discharge Port to C&F Silo with the cost of ₱66 per MT plus value added tax.

The services to be undertaken by Semirara in order to extend their service delivery service from discharge port to silos include coal unloading and handling; repairs and maintenance of coal handling facilities; stevedoring services; support activities and coal yard management; and tree planting, marine life protection program and environmental programs to enhance image of NPC power plants.

28. Contingencies

The Group is contingently liable for contractor's guarantees arising in the ordinary course of business, including letters of guarantee for performance, surety and warranty bonds for various construction projects amounting to ₱1,002 million and ₱518 million as of December 31, 2003 and 2002, respectively.

The Group is contingently liable for lawsuits or claims filed by third parties (substantially labor-related) which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. The Group has been advised by its legal counsel that it is possible, but not probable, the action will succeed. Accordingly, no provisions for probable losses on these cases were recognized in the Group's consolidated financial statements.

DMCI has a contingent claim from URPHI representing interest on contract receivables, the recoverability of which is dependent on the successful implementation of URPHI's rehabilitation plan.

29. Commitments

The Group leases a portion of its office premises that are renewed under the terms and conditions agreed upon with the lessors. The approximate minimum annual rental on such leases after December 31, 2003 amounted to ₱10 million.

30. Note to Consolidated Statements of Cash Flows

Noncash operating, investing and financing activities follows:

	2003	2002	2001
Acquisitions of conventional and continuous mining equipment through availments of long-term debt	₱82,500,000	₱136,980,042	₱393,735,652
Assignment of investments in condominium units in settlement of accounts payable	60,977,654	-	29,500,000
Receipt of a condominium unit from an associate as payment of its accounts payable	22,275,904	-	-
Additional subscriptions to capital stock of an associate in exchange for the claims against the associate	8,820,000	36,750,000	-
Redemption of preferred shares by the Group in exchange for PNs (see Notes 17 and 25)	2,000,000	571,228,721	-
Redemption of preferred shares from Dacon by the Company on account (see Notes 17 and 25)	-	585,756,008	-
Transfer of AHI shares to a preferred shareholder as payment for the redemption of preferred shares by the Company (see Note 17)	-	50,276,000	-
Transfer of DMCI's construction equipment for the redemption of preferred shares (see Notes 17 and 25)	-	50,173,440	-
Deconsolidated balances of OPC:			
Operating assets	-	-	20,675,101
Investments	-	-	2,131,963
Property, plant and equipment	-	-	1,748,271
Other assets	-	-	94,900
Accounts and other payables	-	-	17,087,667
Billings in excess of costs and estimated earnings on uncompleted contracts	-	-	1,811,561

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. (First Quarter Interim Report 2004)

I. RESULTS OF OPERATIONS

DMCI Holdings, Inc. (the "Company") reported a consolidated income of P57 million for the 1st quarter of 2004 compared to the losses of P39 million for the same period in 2003. The turn around was due to improved performance in the Construction industry, the enduring growth in the Coal Mining business and the continuing development in the Real Estate segment.

CONSTRUCTION

D.M. Consunji, Inc. (DMCI), the Company's wholly owned flagship construction company, experienced improved operations for the 1st quarter of 2004. 1st quarter construction revenues rose from P374 million in 2003 to P605 million in 2004 with major projects, Shang Grand Tower, SM Dasmarias and Shopwise Hypermart providing the vital and much needed revenues for the period. Despite this, construction gross margin slightly decreased due to catch up revenues awaiting evaluation and approval. DMCI portion in the Real Estate business (see REAL ESTATE portion below) also helped in providing gross margins to boost bottom figure. Net income for the period was P15 million from the P3 million net income reported in same period of last year.

Another power plant transfer consortium project from Batangas to Iloilo, with a P629 million total project worth, was finalized during the period.

With the visible upsurge in construction activity, it is apparent that the Construction industry is slowly recovering. The Company, through DMCI, will continue to provide its reputable services as engineers and contractors in its endeavor towards recovery and growth.

REAL ESTATE

Positive results were experienced in the Real Estate segment of the Company. Sales were up by 77%, with the good market response of new housing projects and continued sales of existing projects.

Wholly owned real estate and infrastructure development subsidiary, DMCI Project Developers, Inc., (PDI) accounts for East Ortigas Mansions (EOM), Morning Sun Homes (MSH), Spring Lanes (SPL) and Hampstead Gardens Condominiums (HGC). This quarter's sales from EOM and HGC, which is 90% of total PDI Sales, grew by 165% from P126 million from P48 million in the same period last year. Heightened marketing requirements made general and administrative expenses for the quarter grow from P10.8 million in 2003 to P31 million in 2004, greatly hampering net income. PDI bottom line of P800 thousand for the 1st quarter of 2004, compared to the P2 million net loss incurred in the same period of 2003.

COAL MINING

The Company continues to experience significant growth in its Coal Mining business. Seventy four percent owned Semirara Mining Corp. (SMC) reported a turn around in operations with a P55 million net income for the 1st quarter of 2004 from a net loss of the same amount in the same period of 2003.

Coal Sales were up by 39% due to the increase in both selling price and the volume of coal deliveries to customers. 2004 1st quarter sales to National Power Corp. (NPC) was surpassed by

sales to non-NPC clients (Toledo Power Corp., PNOG Coal Corp., APO Cement, and others) evident of SMC's perseverance to diversify its market and to be non-dependent in one customer (NPC). Better mining operations for the period caused both the increase in coal prices and the reduction of coal costs as equipment breakdown was at a minimum and optimum mining location helped provide operational efficiency and superior coal quality. With the enhanced revenues and diminished costs, gross margin from coal sales eventually went up. On a more conservative note, general and administrative expenses went up by 67% resulting from the increased production and selling requirements of SMC.

With the clear up-trend in the coal mining business, the Company remains in target of attaining vision to be the leading coal supplier in the country. Its mission to totally eliminate local dependence on imported coal with the possibility of exporting to other countries.

II. FINANCIAL CONDITION

Receivables naturally increased resulting from operational progress of the business segments. With the Company's competence as a contractor, management decided to reinforce and increase real estate inventory to increase its marketability. Investments decreased for the quarter due to conservative valuation done by management compared to audit valuation as of year-end 2003.

Notes payable and acceptances and trust receipts payable declined due to the continuous debt service of the Company and its subsidiaries, most significantly with the prepayments of loans obtained for the redemption of the Company's preferred shares and SMC's debt payments for its restructured loans. Improved operations prompted the increase in accounts payable for the quarter compared to year-end 2003.

The Company's liquidity capacity improved with current ratio going up from 1.18 to 1.28 from year-end to quarter. Debt to equity slightly increased from 1.95 to 2.03 but well within industry averages (industry average for 2002 is 2.72 based on Phil Business Profiles & Perspectives Inc. Top 7000 Corporations for 2003-2004).

1. Any known trends, Events or Uncertainties

- (i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that will have a material impact on the registrant's liquidity. – **NONE**
- (ii) There are no contingent accounts in the balance sheet of the corporation;
- (iii) Except for interest payments on loans, which the Company can fully service, the only commitment that would have a material impact on liquidity are construction guarantees. These are usually required from contractors in case of any damage / destruction to a completed project.
- (iv) There were no subsequent events that have not been reflected in the financial statements for the period that the company have knowledge of;
- (v) The Company recognizes that the continuing slump in the property sector would keep both real estate sales and construction revenues moderate. Nonetheless, the Group's venture into middle-income housing development is expected to significantly contribute to revenues and income.
- (vi) The company's operation is a continuous process. It is not dependent on any cycle or season;

DMCI HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

For the period ended March 31, 2004 and December 31, 2003

(Amounts in Thousands of Philippine Pesos,

Except Par Value and Number of Shares)

	2004	AUDITED 2003
ASSETS		
Current Assets		
Cash and cash equivalents	164,068	247,591
Receivables - net	4,007,427	3,424,033
Costs and estimated earnings in excess of billings on uncompleted contract	74,231	85,762
Inventories - net	701,026	591,794
Real Estate Held for Sale and Development	3,254,763	2,546,553
Prepaid expenses and other current assets	157,651	148,959
Total Current Assets	8,359,165	7,044,692
Investments - net	1,313,320	2,169,995
Property, Plant and Equipment - net	2,603,995	2,653,165
Deferred Charges and Other Assets	663,560	616,561
	12,940,040	12,484,413

LIABILITIES AND STOCKHOLDERS' EQUITY**Current Liabilities**

Notes Payable	1,271,211	1,360,085
Accounts and other payables	4,637,055	4,047,670
Acceptances and trust receipts payable	197,487	235,867
Payables to property sellers	413,563	261,811
Dividends payable	95	95

Total Current Liabilities

6,519,411

5,905,528

Long-Term Debt - net of current portion

1,331,444

1,597,725

Subscription payable

4,750

3,750

Billings in Excess of Costs on Uncompleted Contracts

526,350

422,555

Deferred Credits

89,307

110,712

Minority Interest

204,153

219,226

Stockholders' Equity

Redeemable Preferred stock - P1 par value

Authorized -100,000,000 shares

452

452

Common stock - P1 par value

Authorized -5,900,000,000 shares

Issued - 2,255,494,000 shares

2,255,494

2,255,494

Additional paid-in capital:

2,929,329

2,929,845

Retained earnings

(666,034)

(723,586)

Treasury stocks

(254,616)

(237,288)

4,264,625

4,224,917

12,940,041

12,484,413

benefit. Lease incentive is recognized as an income over the term of the lease or another systematic basis. The Group will adopt SFAS 17/IAS 17 in 2004 and has not yet determined the impact on the consolidated financial statements of the adoption of this standard.

1. Capital Stock

The changes in the number of shares follow:

	As of March 31, 2004	Audited as of December 31, 2003
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized	100,000,000	100,000,000
Issued		
Balance at beginning of the period	451,690	1,288,265
Retirement of preferred shares	0	(836,575)
Balance at end of the period	451,690	451,690
Common stock - ₱1 par value		
Authorized	5,900,000,000	5,900,000,000
Issued	2,255,494,000	2,255,494,000
Preferred shares held in treasury		
Balance at beginning of year	(183,700)	(945,125)
Redemption of preferred shares	(22,300)	(75,150)
Retirement of preferred shares	0	836,575
Balance at end of year	206,000	(183,700)

The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002.

On April 1, 2002, the Company's BOD approved the Exchange Offer involving the redemption of all of the Company's outstanding preferred shares totaling 1,670,584 shares as of December 31, 2001, which were due for redemption on April 7, 2002 (Final Redemption Date). Such Exchange Offer, which was formally presented to the preferred shareholders on April 5, 2002, consisted of any one or more of the following Options:

Option A - Secured 5-Year Term Loan

Redemption of preferred shares through the issuance of PNs by the Company, DMCI or PDI at a valuation of ₱1,000 per share, equivalent to the original issue price of the preferred shares. The PNs, which are value dated April 7, 2002, shall be subject to a floating interest rate based on prevailing 91-day T-bill rate plus a 2% spread; and shall be secured by a mortgage on certain real estate properties owned by the Group and related parties.

As of December 31, 2003 and March 31, 2004, the Group issued PNs amounting to ₱238 million for the redemption of 310,700 preferred shares, respectively, under Option A

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
For the period ended March 31, 2004 and 2003 and for the quarter ended
March 31, 2004 and 2003
(Amounts in Thousands of Philippine Pesos)

	For the period		For the quarter	
	2004	2003	2004	2003
REVENUES				
Construction contracts	605,363	373,864	605,363	373,864
Coal Sales	648,733	465,423	648,733	465,423
Equity in net earnings of unconsolidated affiliates	(1,350)	(2,031)	(1,350)	(2,031)
Real Estate Sales	188,304	106,334	188,304	106,334
Merchandise sales	9,711	10,908	9,711	10,908
	<u>1,450,761</u>	<u>954,498</u>	<u>1,450,761</u>	<u>954,498</u>
COSTS AND EXPENSES				
Contract costs and expenses	529,443	309,871	529,443	309,871
Cost of Coal Sales	508,594	444,477	508,594	444,477
General and administrative	106,153	72,574	106,153	72,574
Cost of Real Estate Sold	146,145	73,866	146,145	73,866
Cost of merchandise sales	7,461	8,187	7,461	8,187
Interest and others - net	69,463	82,147	69,463	82,147
	<u>1,367,259</u>	<u>991,122</u>	<u>1,367,259</u>	<u>991,122</u>
INCOME/(LOSS) BEFORE INCOME TAX	83,502	(36,624)	83,502	(36,624)
PROVISION FOR INCOME TAX	9,748	8,550	9,748	8,550
INCOME BEFORE MINORITY INTEREST	73,754	(45,174)	73,754	(45,174)
MINORITY INTEREST	16,201	(5,525)	16,201	(5,525)
NET INCOME (LOSS)	57,553	(39,649)	57,553	(39,649)
RETAINED EARNINGS/(DEFICIT), BEG.	(723,586)	(897,673)	(723,586)	(897,673)
DIVIDENDS	0	0	0	0
RETAINED EARNINGS/(DEFICIT), END	<u>(666,033)</u>	<u>(937,322)</u>	<u>(666,033)</u>	<u>(937,322)</u>
Earnings per Common share				
Basic*	0.03	(0.02)	0.03	(0.02)
Diluted	0.00	-	-	-

*Net Income less dividends divided by the total outstanding shares of 2,255,494,000

DMCI HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD ENDED MARCH 31, 2004 AND 2003

	MARCH 2004	MARCH 2003
CAPITAL STOCK		
Cumulative and convertible		
Preferred stock - P1 par value		
Authorized - 100,000,000 shares		
Issued - 2,400,000 shares	2,400,000	2,400,000
Retirement of preferred shares	(1,948,310)	(1,749,769)
	<u>451,690</u>	<u>650,231</u>
Common stock - P1 par value		
Authorized - 5,900,000,000 shares		
Issued - 2,255,494,000 shares	2,255,494,000	2,255,494,000
	<u>2,255,945,690</u>	<u>2,256,144,231</u>
ADDITIONAL PAID-IN CAPITAL		
Balance at the beginning	2,929,845,102	3,743,129,855
Retirement of Preferred Shares	(516,530)	(656,189,524)
	<u>2,929,328,572</u>	<u>3,086,940,331</u>
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of the period	(723,585,843)	(897,673,411)
Net income(loss) for the period	57,552,067	(39,649,238)
Accrued dividends declared	-	-
Balance at end of the period	<u>(666,033,776)</u>	<u>(937,322,649)</u>
PREFERRED SHARES HELD IN TREASURY		
Balance at beginning of the period	(237,287,967)	(1,030,183,051)
Acquisitions for the period	-	-
Redemption/Retirement of preferred shares	(17,327,619)	673,891,546
Balance at end of the period	<u>(254,615,586)</u>	<u>(356,291,505)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>4,264,624,900</u>	<u>4,049,470,408</u>

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended March 31, 2004 and 2003
(Amounts in Thousands of Philippine Pesos)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss)/ Income	57,553	(39,649)
Adjustments to reconcile net income (loss) to net cash:		
Equity in net losses (earnings) of affiliates	1,350	2,031
Depreciation, depletion and amortization	14,851	36,782
Income (Loss) applicable to Minority Interest	(16,201)	5,525
Changes in assets and liabilities:		
Decrease / (Increase) in :		
Receivables- net	(583,394)	(444,263)
Inventories - net	(109,232)	39,662
Prepaid expenses and other current assets	(8,692)	15,240
Increase/ (Decrease) in :		
Accounts payable and accrued expenses	589,385	327,162
Acceptances and trust receipts payable	(38,380)	(31,270)
Non current liabilities	(266,281)	(160,742)
Payable to land owners	151,752	79,308
Dividends Payable	0	(26,724)
Billings in excess of cost of uncompleted contracts	115,326	(49,219)
Deferred credits	(21,405)	118,787
Net cash provided by operating activities	(113,368)	(127,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Investments - net	856,675	(252,662)
Real estate held for sale and development	(708,210)	277,679
Property, plant and equipment - net	49,170	80,454
Deferred charges and other assets - net	(46,999)	(5,639)
Subscriptions Payable	1,000	1,000
Net cash provided by investing activities	151,636	100,832
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of:		
Notes payable	(88,874)	53,909
Redemption of preferred shares		
Capital Stock at P1.00 par value	0	(638)
Additional paid-in capital	(516)	(656,190)
Acquisition of preferred shares to treasury	0	0
Redemption of preferred shares from treasury	(17,328)	673,891
Accrual of Dividends paid:		
Preferred Shares	0	0
Net increase (decrease) in minority interest	(15,073)	(127,812)
Net cash provided by financing activities	(121,791)	(56,840)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(83,523)	(83,378)
CASH AND CASH EQUIVALENTS, BEGINNING	247,591	237,127
CASH AND CASH EQUIVALENTS, ENDING	164,068	153,749

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Financial Statements Preparation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines (Philippine GAAP) using the historical cost basis except for certain property, plant and equipment, which are carried at adjusted cost.

Use of Estimates

The preparation of the consolidated financial statements in accordance with Philippine GAAP requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates will be recorded in the consolidated financial statements as they become determinable.

Changes in Accounting Policies

On January 1, 2003, the Group adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS):

- SFAS 10/IAS 10, *Events After the Balance Sheet Date*, prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the consolidated financial statements, principally the date of authorization for issuance of the consolidated financial statements.
- SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. Adoption of this standard has no effect on the accompanying consolidated financial statements.
- SFAS 38/IAS 38, *Intangible Assets*, establishes the criteria for the recognition and measurement of intangible assets. It also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred. A certain subsidiary in preparatory stage changed its method of accounting for preoperating expenses and, accordingly, reversed its unamortized preoperating expenses to conform to the standard. Previously, such expenses were deferred and to be amortized upon the start of the subsidiary's operations. The change in accounting policy has been accounted for retroactively and the comparative statements for 2002 and 2001 have been restated. The change increased net loss by ₱7 million in 2002 and decreased net income by ₱1 million in 2001. Deficit as of January 1, 2003, 2002, and 2001 has increased by ₱22 million, ₱15 million and ₱14 million, respectively.

Basis of Consolidation

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

The consolidated financial statements include the financial statements of the Company and the following subsidiaries as of December 31 of each year:

	Effective Percentage of Ownership
General Construction:	
D.M. Consunji, Inc. (DMCI)	100.00
DMCI International, Inc. (DMCII)	100.00
DMCI-Laing Construction, Inc. (DMCI-Laing)	60.00
OHKI-DMCI Corporation (OHKI)	60.00
Beta Electric Corporation (Beta Electric)	50.10
Infrastructure and Real Estate Development:	
DMCI Project Developers, Inc. (PDI)	100.00
Contech Products Corporation (Contech)	100.00
Hampstead Gardens Corporation (Hampstead)	60.00
Riviera Land Corporation (Riviera)	51.00
Constress Philippines, Inc. (Constress)	50.71
Coal Mining:	
Semirara Mining Corporation (Semirara)	74.40
Manufacturing:	
Semirara Cement Corporation (SemCem)*	100.00
Contech Products South Corporation (Contech South)	52.00
Wire Rope Corporation of the Philippines (Wire Rope)	61.70

* Organized on January 29, 1998 and has not yet started commercial operations.

DMCI's subsidiaries include DMCII, DMCI-Laing, OHKI, Beta Electric, Constress and Contech South.

PDI's subsidiaries include Contech and Hampstead.

Except as stated otherwise, consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated in consolidation.

Minority interest represents the interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Company. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest's equity in the subsidiary. The excess and any further losses applicable to the minority are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profit until the minority's share of losses previously absorbed by the majority has been recovered.

Cash and Cash Equivalents

Cash includes cash on hand and 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 and that are subject to an insignificant risk of change in value.

Receivables

Receivables are recognized and carried at the original contract price or invoice amount, less allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable or when the amounts anticipated to be received in settlement of such receivables are less than the amounts due. The allowance for doubtful accounts is

maintained at a level considered adequate to provide for potential losses on receivables and is determined after a study of the estimated collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experience in relation to the particular receivables, past and expected loss experiences and specifically identified doubtful accounts.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). NRV is the estimated replacement cost or the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of coal inventory is determined by the weighted average production cost method. The cost of equipment parts, materials and supplies is determined substantially by the average cost methods (either by moving average or weighted average production cost). The cost of equipment parts, materials and supplies determined by the first-in, first-out method accounts for about 5% of total inventories.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged to operations.

Real Estate for Sale and Development

Real estate for sale and development are carried at the lower of cost or NRV. Real estate costs include those costs that relate to the acquisition, development, improvement and construction of the real estate projects. Borrowing costs are capitalized while the development and construction of the real estate projects are in progress, and to the extent that these are expected to be recovered in the future. NRV is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Investments in Associates, Jointly Controlled Entities and Others

Investments in associates and jointly controlled entities are accounted for under the equity method. Under this method, such investments are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the investees, less any impairment in value. The consolidated statements of income reflect the Group's share of the results of operations of these investees. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Group's 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 investment.

If the Group's share in the losses of an investee equals or exceeds the carrying amount of its investment, the Group ordinarily discontinues recognizing its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the investee to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the investee subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of net losses not recognized.

Investments in shares of stock of companies in which the Group does not exercise significant influence are carried at cost. An allowance is set up for any substantial and presumably permanent decline in the carrying value of these investments.

Investments in Real Estate

Investments in land are carried at cost less any impairment in value.

Investments in condominium units are carried at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset ranging from 5 to 10 years.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, depletion and amortization and any impairment in value. Land is stated at cost, less any impairment in value.

Certain land and land improvements, buildings and building improvements and conventional and continuous mining equipment of Semirara acquired up to April 30, 1997 are stated at adjusted cost (as a result of Semirara's quasi-reorganization as of December 31, 1997) (see Note 11) as determined by an independent firm of appraisers as of that date less accumulated depreciation and amortization and any impairment in value. Subsequent additions are stated at cost, less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, 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, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation and amortization of property, plant and equipment, except for mining properties, mine exploration and development costs, are calculated on the straight-line basis over the following estimated useful lives of the respective assets:

Land improvements	5 to 17 years
Buildings and building improvements	5 to 25 years
Construction equipment, machinery and tools	4 to 10 years
Office furniture, fixtures and equipment	3 to 7 years
Transportation equipment	4 to 5 years
Conventional and continuous mining equipment	2 to 13 years
Leasehold improvements	5 to 7 years or terms of the lease, whichever is shorter

Depletion of mining properties, mine exploration and development costs are calculated based on the units-of-production method.

The useful lives and depreciation, depletion and amortization method are reviewed periodically to ensure that the period and method of depreciation, depletion and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction in progress included in property, plant and equipment is stated at cost. This includes cost of construction of property, plant and equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Mine Exploration and Development Costs

Expenditures for mine exploration and development activities on mining properties are deferred as incurred. These deferred costs are charged to expense when the results of the exploration activities are determined to be negative or not commercially viable. When exploration results are positive or commercially viable, the exploration expenses and subsequent development expenses are deferred and presented as part of the “Other noncurrent assets” account in the consolidated balance sheets. Upon the start of commercial production, such costs are accordingly transferred to the “Property, plant and equipment” account in the consolidated balance sheets and amortized using the units-of-production method.

Stripping Costs

Stripping costs are capitalized based on the difference between the actual stripping ratio (ratio of waste moved to coal mined) and the estimated stripping ratio established in accordance with the survey conducted on the mine. These costs, included under the “Other noncurrent assets” account in the consolidated balance sheets, are amortized using the units-of-production method.

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.

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 period 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 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.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of housing and condominium units are capitalized as part of the “Real estate for sale and development” account in the consolidated balance sheets. Other borrowing costs are recognized as expense in the year in which these costs are incurred.

The capitalization of borrowing costs as part of the cost of housing and condominium units: (a) commences when the expenditures and borrowing costs for the housing and condominium units are being incurred and activities that are necessary to prepare the housing and condominium units for its intended use or sale are in progress; (b) is suspended during extended periods in which active development, improvement and construction of the housing and condominium units are interrupted; and (c) ceases when substantially all the activities necessary to prepare the housing and condominium units for its intended use or sale are complete. If the carrying amount of the assets exceeds its recoverable amount, an impairment loss is recorded.

Provisions

Starting 2003, provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

In prior years, provisions for contingencies were accrued when it is probable that a liability had been incurred at balance sheet date and the amount can be reasonably estimated. Otherwise, the loss contingency was disclosed.

Revenue and Cost Recognition

Construction Contracts

Revenue from construction contracts is recognized under the percentage of completion method of accounting and is 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. Revenue from cost plus contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

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. 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 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 margin are recognized in the year in which the changes are determined. Profit incentives are recognized as revenue 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 of total costs incurred and estimated earnings recognized. Contract retentions are included as part of “Trade receivables - construction” under the “Receivables” account in the consolidated balance sheets.

Real Estate Sales

Revenue from real estate sales, which consists primarily of the sale of housing and condominium units, with material obligations under the sales contracts to provide improvements after the property is sold, is accounted for under the percentage of completion method. Under this method, the revenue is deferred and presented as “Deferred revenue on real estate sales” under the “Other noncurrent liabilities” account in the consolidated balance sheets and realized as the related obligations are fulfilled. 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 presented as “Customers’ deposits”, included in the “Accounts and other payables” account in the liabilities section of the consolidated balance sheets. Cancellations of prior year sales and related deferred gross profit are deducted from current year revenue and costs.

The costs of related housing and condominium units sold before completion of the projects are determined based on the actual costs incurred and project cost estimates as determined by the contractors and technical staff of the Group. The estimated future expenditures for the completion of sold residential and condominium units are presented as “Estimated liability for property development” account in the consolidated balance sheets.

Coal Sales

Revenue from coal sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Merchandise Sales

Revenue from merchandise sales is recognized upon delivery of the goods to and acceptance by the buyer and when the risks and rewards are passed on to the dealers.

Interest Income

Interest income is recognized as it accrues, taking into account the effective yield of the assets.

Leases

Operating lease payments are recognized as expense in the consolidated statements of income based on the terms of the lease contracts.

Retirement Costs

Most of the Group's retirement costs are actuarially determined using either the projected unit credit method or the attained age cost method. The projected unit credit method reflects the services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service costs plus amortization of past service costs, experience adjustments and changes in actuarial assumptions over the expected remaining working lives of the covered employees. Certain subsidiaries determined their retirement costs using the attained age cost method. Under the attained age cost method, past service costs, experience adjustments and the effects of changes in actuarial assumptions are amortized over the expected remaining working lives of the covered employees. Of the consolidated retirement costs, 46% was determined using the projected unit credit method and 54% using the attained age cost method.

IAS 19, *Employee Benefits*, will become effective in January 2005. Under IAS 19, the only allowed valuation method is the projected unit credit method. The Company's subsidiaries that are currently using the attained age cost method will shift to projected unit credit method in 2005. The impact on the consolidated financial statements of the shift to projected unit credit method has not yet been determined.

Income Taxes

Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax benefits or consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and carryforward benefit of the excess of minimum corporate income tax (MCIT) over normal income tax and net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rate applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled and the carryforward benefit of the MCIT and NOLCO are expected to be applied. A valuation allowance is provided for deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not 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 year.

Under the provisions of Republic Act No. 7227, DMCII, being a Subic Bay Free Port Zone enterprise, is subject to a tax of 5% on gross income in lieu of all other taxes.

Foreign Currency Transactions

Transactions denominated in foreign currency are recorded using the exchange rate prevailing as of the date of the transactions. Outstanding foreign currency-denominated assets and liabilities at year-end are translated to Philippine Pesos at prevailing Philippine Dealing System rates at balance sheet dates. Exchange gains or losses resulting from rate fluctuations upon actual settlement and from restatement at year-end are credited or charged to current operations.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events

Post-year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

Earnings (Loss) Per Share

Basic earnings (loss) per share are calculated by dividing the net income (loss) for the year attributable to common shareholders [net income (loss) for the period less dividends on convertible redeemable preferred shares] by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

Diluted earnings per share are calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year (adjusted for the effects of dilutive convertible redeemable preferred shares). The net income (loss) attributable to common shareholders is increased by the dividends on convertible redeemable preferred shares. The weighted average number of common shares is increased by the weighted average number of additional common shares which would be issued assuming the conversion of all dilutive potential common shares.

Diluted earnings (loss) per share assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted earnings per share is presented.

Segments

The Group's 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. Financial information on business segments is presented in Note 2 to the consolidated financial statements.

New Accounting Standards Effective in 2004

The Accounting Standards Council has approved the following accounting standards, relevant to the Group, which will be effective in 2004:

- SFAS 12/IAS 12, *Income Taxes*, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that the taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of deferred tax liability with respect to asset revaluations. The Group will adopt SFAS 12/IAS 12 in 2004 and has not yet determined the impact on the consolidated financial statements of the adoption of this standard.
- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee. A lessee is required to record operating lease as an expense on a straight-line basis unless another systematic basis is representative of the pattern of the user's

benefit. Lease incentive is recognized as an income over the term of the lease or another systematic basis. The Group will adopt SFAS 17/IAS 17 in 2004 and has not yet determined the impact on the consolidated financial statements of the adoption of this standard.

1. Capital Stock

The changes in the number of shares follow:

	As of March 31, 2004	Audited as of December 31, 2003
Preferred stock - ₱1 par value cumulative and convertible to common stock		
Authorized	100,000,000	100,000,000
Issued		
Balance at beginning of the period	451,690	1,288,265
Retirement of preferred shares	0	(836,575)
Balance at end of the period	451,690	451,690
Common stock - ₱1 par value		
Authorized	5,900,000,000	5,900,000,000
Issued	2,255,494,000	2,255,494,000
Preferred shares held in treasury		
Balance at beginning of year	(183,700)	(945,125)
Redemption of preferred shares	(22,300)	(75,150)
Retirement of preferred shares	0	836,575
Balance at end of year	206,000	(183,700)

The preferred shareholders' right of converting the preferred shares to common shares expired in March 2002.

On April 1, 2002, the Company's BOD approved the Exchange Offer involving the redemption of all of the Company's outstanding preferred shares totaling 1,670,584 shares as of December 31, 2001, which were due for redemption on April 7, 2002 (Final Redemption Date). Such Exchange Offer, which was formally presented to the preferred shareholders on April 5, 2002, consisted of any one or more of the following Options:

Option A - Secured 5-Year Term Loan

Redemption of preferred shares through the issuance of PNs by the Company, DMCI or PDI at a valuation of ₱1,000 per share, equivalent to the original issue price of the preferred shares. The PNs, which are value dated April 7, 2002, shall be subject to a floating interest rate based on prevailing 91-day T-bill rate plus a 2% spread; and shall be secured by a mortgage on certain real estate properties owned by the Group and related parties.

As of December 31, 2003 and March 31, 2004, the Group issued PNs amounting to ₱238 million for the redemption of 310,700 preferred shares, respectively, under Option A

Option B - Secured 7-Year Term Loan

Redemption of preferred shares through the issuance of PNs by the Company, DMCI or PDI at a valuation of ₱1,367 per share, equivalent to the original issue price of the preferred shares plus accumulated and nonconversion premium. The PNs, which are also value dated April 7, 2002, shall be subject to either of the following interest rates at the option of the preferred shareholders: (a) floating interest rate based on prevailing 91-day T-bill rate plus a 3% spread; (b) fixed interest at 13% for the first 5 years of the loan and floating for the remaining 2 years at a rate equivalent to that contemplated in letter (a); and (c) fixed interest at 13% for the entire 7-year term; and shall be secured by a participation in a mortgage trust indenture covering various accounts receivables, inventory and equipment owned by the Company and/or its subsidiaries and related parties; and/or a mortgage on certain provincial real estate properties.

As of December 31, 2003 and March 31, 2004, the Group issued PNs amounting to ₱276 million for the redemption of 201,855 preferred shares under Option B.

Option C - Asset for Share Exchange

Redemption of preferred shares in exchange for residential and office units, equipment and/or accounts receivable at a valuation of ₱1,112 per share (purchase price), equivalent to the original issue price of the preferred shares plus accumulated and current dividends. The exchange shall be carried out with the subject assets valued at their selling price or fair market value. In the event that the total value of the assets elected by the preferred shareholders exceeds the total purchase price of the preferred shares, the resulting residual amount shall be paid by such shareholders to the Company in cash. Conversely, should the total purchase price exceeds the asset value, the residual amount shall be paid by the Company to the shareholders through either of Options A, B or D.

As of December 31, 2003 and March 31, 2004, the Group redeemed 603,879 preferred shares under Option C in exchange for Asian Hospital, Inc. (AHI) shares, certain construction equipment amounting to ₱50 million and other assets amounting to ₱586 million in favor of Dacon Corporation (Dacon), a major stockholder.

Option D - Cash Payment

Redemption of preferred shares for cash at a price of ₱775 per share, equivalent to the closing market price of such preferred shares on April 1, 2002 up to a maximum of P72 million (cap). Should the total amount of all the preferred shares of the holders electing this option exceed the cap, the ₱72 million shall be allocated among all accepting shareholders on a pari passu basis; with the remaining preferred shares to be purchased under any of Options A, B or C.

As of December 31, 2003 and March 31, 2004, the Group redeemed 213,010 and 257,610 preferred shares, respectively, under Option D.

As of December 31, 2003 and March 31, 2004, the outstanding obligations of the Group relative to the issuance of PNs to certain preferred shareholders of the Company amounted to ₱514 million (see Note 15).

As of December 31, 2003, 2002 and March 31, 2004, dividends in arrears for preferred shares amounted to ₱33 million.