

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

We have also examined the pro forma adjustments reflecting the events described in Note 2 to the consolidated financial statements and the application of those adjustments to the historical amounts in the accompanying historical consolidated financial statements of DMCI Holdings, Inc. and subsidiaries as of and for the ten months ended December 31, 1995. The pro forma adjustments are based on management's assumptions described in Note 2 to the consolidated financial statements. Our examinations included such procedures as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the events described in Note 2 to the consolidated financial statements occurred at an earlier date. However, the pro forma consolidated financial statements are not necessarily indicative of the results of operations, cash flows or related effects on financial position that would have been attained had the events described in Note 2 to the consolidated financial statements actually occurred earlier.

In our opinion the management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the events described in Note 2 to the consolidated financial statements, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma consolidated balance sheet as of December 31, 1995, and the pro forma consolidated statements of income and cash flows for the year then ended, reflect the proper application of those adjustments to the historical financial statement amounts of DMCI Holdings, Inc. and subsidiaries as of and for the ten months ended December 31, 1995.

PTR No. 276643
January 10, 1996
Makati City

Makati City
April 12, 1996

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

4th Floor, Asia Industries Building
2881 Pasong Tamo Extension
Makati City

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995

	Historical	Pro Forma
ASSETS		
Current Assets		
Cash and cash equivalents	P174,097,638	P174,097,638
Receivables - net (Note 4)	1,632,816,980	1,632,816,980
Costs in excess of billings on uncompleted contracts	21,165,576	21,165,576
Inventories - net (Note 5)	103,191,993	103,191,993
Other current assets	18,539,615	18,539,615
Total Current Assets	1,949,811,802	1,949,811,802
Funds Held by Custodian Bank (Note 6)	2,174,560,112	2,174,560,112
Real Estate Held for Sale and Development (Note 7)	419,842,996	419,842,996
Investments (Note 8)	488,286,270	488,286,270
Property, Plant and Equipment - net (Note 9)	831,340,549	831,340,549
Other Assets	38,756,438	38,756,438
	P5,902,598,167	P5,902,598,167
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 10)	P43,400,000	P43,400,000
Accounts payable and accrued expenses	636,212,830	636,212,830
Acceptances and trust receipts payable	144,010,835	144,010,835
Loans payable (Note 11)	71,374,003	71,374,003
Income tax payable	58,733,352	58,733,352
Subscriptions payable	122,737,500	122,737,500
Payables to affiliated companies (Note 14)	31,191,385	31,191,385
Deferred income tax (Note 13)	247,175,830	247,175,830
Total Current Liabilities	1,354,835,735	1,354,835,735
Billings in Excess of Costs on Uncompleted Contracts	589,178,510	589,178,510
Deferred Real Estate Revenues	31,926,800	31,926,800
Minority Interest	33,403,084	33,403,084
Stockholders' Equity		
Capital stock - P1 par value (Note 12)		
Authorized - 1,750,000,000 shares		
Issued - 1,127,747,000 shares	1,127,747,000	1,127,747,000
Additional paid-in capital (Note 12)	2,373,452,402	2,271,028,857
Net income	392,054,636	494,478,181
	3,893,254,038	3,893,254,038
	P5,902,598,167	P5,902,598,167

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIOD ENDED DECEMBER 31, 1995

	Historical (Ten Months*)	Pro Forma (One Year)
REVENUES		
Construction contracts	P3,203,837,920	P3,203,837,920
Real estate sales	278,537,220	278,537,220
Merchandise sales	204,152,825	204,152,825
Equity in net earnings of unconsolidated affiliates (Note 8)	7,971,486	7,971,486
Interest and others	122,833,326	122,833,326
	3,817,332,777	3,817,332,777
COSTS AND EXPENSES		
Contract costs and expenses	2,589,836,462	2,589,836,462
General and administrative	272,592,838	272,592,838
Cost of merchandise sales	163,144,108	163,144,108
Cost of real estate sales	32,334,436	32,334,436
	3,057,907,844	3,057,907,844
INCOME BEFORE INCOME TAX	759,424,933	759,424,933
PROVISION FOR INCOME TAX (Note 13)		
Current	149,797,681	149,797,681
Deferred	104,744,794	104,744,794
	254,542,475	254,542,475
INCOME BEFORE MINORITY INTEREST AND PREACQUISITION EARNINGS	504,882,458	504,882,458
MINORITY INTEREST	(10,404,277))	(10,404,277))
INCOME BEFORE PREACQUISITION EARNINGS	494,478,181	494,478,181
PREACQUISITION EARNINGS (Notes 2 and 12)	(102,423,545)	-
NET INCOME	P392,054,636	P494,478,181
Earnings per Share	P0.73	P0.92

*The Company was incorporated on March 8, 1995.

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 1995

	Historical (Ten Months*)	Pro Forma (One Year)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₱392,054,636	₱494,478,181
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	112,359,040	112,359,040
Provision for deferred income tax	104,744,794	104,744,794
Preacquisition earnings	102,423,545	-
Minority interest	10,404,277	10,404,277
Gain on sale of property, plant and equipment	(267,935,147)	(267,935,147)
Equity in net earnings of unconsolidated affiliates	(7,971,486)	(7,971,486)
Increase in assets and liabilities:		
Receivables - net	(1,632,816,980))	(1,632,816,980))
Costs in excess of billings on uncompleted contracts	(21,165,576)	(21,165,576)
Inventories - net	(103,191,993)	(103,191,993)
Other current assets	(18,539,615)	(18,539,615)
Accounts payable and accrued expenses	636,212,830	636,212,830
Acceptances and trust receipts payable	144,010,835	144,010,835
Income tax payable	58,733,352	58,733,352
Payables to affiliated companies	31,191,385	31,191,385
Billings in excess of costs on uncompleted contracts	589,178,510	589,178,510
Deferred real estate revenues	31,926,800	31,926,800
Deferred income tax - net	142,431,036	142,431,036
Net cash provided by operating activities	304,050,243	304,050,243
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of property, plant and equipment	300,129,654	300,129,654
Funds held by custodian bank	(2,174,560,112)	(2,174,560,112)
Additions to:		
Property, plant and equipment	(975,894,096)	(975,894,096)
Real estate held for sale and development	(419,842,996)9)	(419,842,996)9)
Investments	(357,577,284)	(357,577,284)
Other assets	(38,756,438)	(38,756,438)
Net cash used in investing activities	(3,666,501,272)	(3,666,501,272)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	3,398,775,857	3,398,775,857
Loans payable	71,374,003	71,374,003
Availments of bank loans	43,400,000	43,400,000
Minority interest	22,998,807	22,998,807
Cash provided by financing activities	3,536,548,667	3,536,548,667
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱174,097,638	₱174,097,638
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income tax	₱105,545,487	₱105,545,487
Interest (including capitalized interest of ₱19,244,590)	28,469,253	28,469,253

* The Company was incorporated on March 8, 1995.

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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

2. Preparation and Purpose of Historical and Pro Forma Consolidated Financial Statements and Pro Forma Management Assumptions

The consolidated financial statements presented the historical amounts and pro forma information of DMCI Holdings, Inc. and subsidiaries as of and for the period ended December 31, 1995.e

The historical consolidated financial statements reflects the financial position, results of operations and cash flows of the Company and its subsidiaries as of and for the ten months ended December 31, 1995. The historical consolidated statement of income included the results of operations of DMCI for the year ended December 31, 1995. However, inasmuch as the Company was incorporated only on March 8, 1995, and DMCI become a wholly owned subsidiary of the Company only on June 20, 1995, the historical consolidated net income for the ten months ended December 31, 1995 was reduced by DMCI net income from January 1, 1995 to June 19, 1995 to amounting to ₱102,423,545, which was shown in the historical consolidated statement of income as "Preacquisition earnings" (see Note 12).

The pro forma consolidated financial statements, which were based on the historical financial statements of DMCI Holdings, Inc. and subsidiaries as of and for the ten months ended December 31, 1995, were prepared to show (for analysis purposes only) what the Company's financial position, results of operations and cash flows would have been as of and for the year ended December 31, 1995 had the Company's incorporation and transfers of shares as discussed in Note 13 occurred on January 1, 1995. Accordingly, the following pro forma capital stock transactions were assumed to have taken place.

(a) Incorporation of the Company and Subscription to the Company's Shares of Stock

The Company was assumed to have been incorporated on January 1, 1995, with an authorized capital stock of ₱1,750,000,000 consisting of 1,750,000,000 shares at ₱1.00 par value.

In connection with the Company's incorporation, Dacon and other shareholders were assumed to have subscribed to 821,000,000 shares of the Company's capital stock at a par value of ₱ 1.00 per share or an aggregate value of ₱821,000,000. It was also presumed that the date of the execution of the deed of assignment covering 276,486,423 DMCI shares of stock and the date of the acquisition by the Company of the remaining 134,583,423 DMCI shares of stocks was January 1, 1995 (see Note 12).

The balance of the Company's subscriptions receivable as of January 1, 1995 after effecting the foregoing pro forma transactions was assumed to be 544,513,577. This amount was actually contributed to the Company by Dacon and individual shareholders in 1995 as reflected in the historical financial statements.

(b) Collections of Subscriptions Receivable

The Company's subscriptions receivable amounting to ₱410,000,000 as of January 1, 1995 arising from the assumptions in item (a) was assumed to be collected through additional cash contribution to the Company in 1995 of ₱410,000,000. (This amount was actually contributed to the Company in 1995 as reflected in the historical balance sheet as of December 31, 1995).

(ci) Pro Forma Consolidated Net Income

As a result of the assumptions in item (a), the pro forma consolidated net income for the year ended December 31, 1995 of ₱494,478,181 included the net income of the Company for the ten months ended December 31, 1995, of DMCI and subsidiaries for the year ended December 31, 1995, and of PDI for the eight months ended December 31, 1995.

3. **Summary of Significant Accounting Policies**

Principles of Consolidation

The consolidated financial statements included the accounts of the Company and its wholly owned subsidiaries, DMCI and PDI. The financial statements of DMCI included the accounts of its consolidated subsidiaries: Beta Electric Corporation (50.1% owned), Obayashi Philippines Corporation (56% owned), Asia Industries Agro-Industrial Machinery Corporation (50.1% owned) and Asia Industries Materials Handling Equipment, Inc. (53% owned). The accounts of PDI included the accounts of its wholly owned subsidiary, Tagig Land Development Corporation, which was incorporated on October 31, 1995 and has no income yet from commercial operations.

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

Revenue and Cost Recognition

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

Contract costs include all direct materials and labor costs, and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability including those arising from contract penalty provisions and final contract settlements that may result in revisions in estimated costs and gross margins are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

The asset, "Costs in excess of billings on uncompleted contracts," represents costs incurred in excess of amounts billed. The liability, "Billing in excess of costs on uncompleted contracts," represents billings in excess of revenues recognized. Contract retentions are included in contracts receivable.

Real Estate. Real estate sales which consist primarily of the sale of condominium units, where PDI has material obligations under the sales contracts to provide improvements after the property is sold are accounted for under the percentage of completion method. Under this method, the gain on sale is recognized as the related obligations are fulfilled. Revenues allocable to the unfulfilled obligations are deferred and presented as "Deferred Real Estate Revenues" in the consolidated balance sheet. 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.

Real estate costs that relate to the acquisition, development, improvement and construction of the real estate project are capitalized. Interest costs are capitalized while the development and construction of the real estate projects are in progress. Selling expenses incurred in connection with the sale of the condominium units are deferred and charged to operations when the related revenues are recognized.

Cash and Cash Equivalents

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

Inventories

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

Investments

Investments in the shares of stocks of investee companies that are at least 20% owned are accounted for by the equity method. Under the equity method, the investments are carried at cost adjusted principally for the Company's equity in the net earnings or losses of the investee companies from the dates of acquisition. Equity in net earnings or losses is also adjusted for the straight-line amortization of the difference between the cost of the investment and the Company and its subsidiaries' equity in the underlying net assets of the investee companies at the dates of acquisition.

Other investments in shares of stock are carried at cost. An allowance is set up for any substantial and presumably permanent decline in the carrying value of such investments.

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties. Interest costs of DMCI aggregating to about ₱19 million for the year ended December 31, 1995 for the purchase and construction of long term fixed assets are capitalized and are being amortized over the estimated useful lives of the related assets.

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

Preoperating Expenses

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

Income Taxes

Deferred income taxes are provided to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, resulting primarily from the differences in the carrying amount of contracts in progress and contracts receivable. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the period in which those temporary differences are expected to be recovered or settled.

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

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

Foreign Currency Transactions

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

Retirement Costs

Retirement costs are actuarially computed and are funded as accrued.

Earnings Per Share

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

4. Receivables

Receivables consisted of:

	Historical	Pro Forma
Contracts (including retention receivable on uncompleted contracts of ₱196 million)	₱1,201,614,572	₱1,201,614,572
Advances to subcontractors and suppliers	241,413,665	241,413,665
Trade	59,360,757	59,360,757
Affiliated companies (see Note 14)	102,036,692	102,036,692
Others	53,623,360	53,623,360
	1,658,049,046	1,658,049,046
Less allowance for doubtful accounts	25,232,066	25,232,066
	₱1,632,816,980	₱1,632,816,980

5. Inventories

The details of inventories are as follows:

	Historical	Pro Forma
Equipment units and spare parts	₱38,648,608	₱38,648,608
Construction and installation materials, parts and supplies	45,529,122	45,529,122
	84,177,730	84,177,730
Less allowance for inventory obsolescence	4,963,768	4,963,768
	79,213,962	79,213,962
Equipment units, materials and spare parts in transit	23,978,031	23,978,031
	₱103,191,993	₱103,191,993

6. Funds Held by Custodian Bank

This account represents the balance of the proceeds of the initial public offering (see Note 12) deposited with a local custodian bank. The custodian bank has the duty of investing the funds, monitoring withdrawals or disbursements thereof, and ensuring that all withdrawals and orders for payments made are in connection with, or relating to, any of the purposes specified in the work program submitted to the Securities and Exchange Commission (SEC) in connection with the initial public offering. As of December 31, 1995, the Company had already disbursed from the fund ₱523 million to finance its wholly owned subsidiaries' acquisitions of real estate properties and construction equipment in accordance with the work program.

7. Real Estate Held for Sale and Development

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

	Historical	Pro Forma
Real estate under development`	₱118,049,488	₱118,049,488
Land held for future development (see Note 11)	301,793,508	301,793,508
	₱419,842,996	₱419,842,996

As of December 31, 1995, the estimated cost to complete PDI's real estate project amounted to about ₱198 million.

8. Investments

The details of the investments account are as follows:

	Historical	Pro Forma
Shares of Stock:		
At equity		
Acquisition cost	₱270,573,119	₱270,573,119
Equity in net earnings:		
Balance at beginning of period	13,869,604	13,869,604
Equity in net earnings (net of dividends and goodwill amortization)	7,971,486	7,971,486
Disposals	6,200,169	6,200,169
Balance at end of period	28,041,259	28,041,259
	298,614,378	298,614,378
At cost	13,814,565	13,814,565
	312,428,943	312,428,943
Real Estate Properties:		
Land	142,927,190	142,927,190
Building units - net of accumulated depreciation of ₱2,913,179	32,930,137	32,930,137
	175,857,327	175,857,327
	₱488,286,270	₱488,286,270

The Company's share in the undistributed earnings of its unconsolidated affiliates included in net income amounting to P28 million is not currently available for dividend declaration by the Company until actually distributed by such affiliates.

On December 22, 1995, the Board of Directors of DMCI approved the sale of its investment in the shares of stocks of Asia Industries of Cebu, Inc. and Asia Industries (Mindanao), Inc. to Dacon Corporation, an affiliate, for an aggregate value of about P5 million.

9. Property, Plant and Equipment

Property, plant and equipment consisted of:

	Historical	Pro Forma
Land and improvements	P152,416,350	P152,416,350
Leasehold improvements	7,212,633	7,212,633
Buildings and building improvements	34,563,079	34,563,079
Construction equipment and tools	929,000,332	929,000,332
Transportation equipment	90,907,351	90,907,351
Machinery and other equipment	10,589,589	10,589,589
Office furniture, fixtures and equipment	62,419,895	62,419,895
	1,287,109,229	1,287,109,229
Less accumulated depreciation and amortization	455,768,680	455,768,680
	<u>P831,340,549</u>	<u>P831,340,549</u>

In 1995, DMCI sold a building and a parcel of land which will no longer be used in its operations and realized a gain of about P242 million.

DMCI also acquired from an affiliate construction equipment amounting to about P22 million in 1995. DMCI sold to other affiliated companies certain equipment and realized a gain of about P 11 million.

10. Bank Loans

Bank loans consisted of obligations to local banks which bear interest at prevailing market rates. These loans are secured by real estate mortgages covering certain real estate properties of DMCI's subsidiaries, and joint suretyship agreements by certain stockholders and other affiliated companies.

11. Loans Payable

Loans payable represent the balance of PDI and its subsidiary's obligation to certain real estate property owners for the acquisition of real estate properties. As stipulated in the terms of the deed of absolute sale between PDI and the seller, PDI's loan payable of ₱39.6 million shall be paid in proportion to the area of the acquired property which has been cleared by the property owner of all squatters and illegal structures.

12. Capital Stock

On May 25, 1995, Dacon Corporation (the Company's principal stockholder) and other individual shareholders of the Company executed a deed of assignment of shares of stock transferring to the Company their investments in the shares of stock of DMCI, representing 67% of DMCI's paid-up capital, as payment for their subscriptions to 276,486,423 shares of the Company at a par value of ₱1.00 per share or an aggregate value of ₱276,486,423, the Company recorded such contribution at the transfer price indicated in the deed of assignment, which is based on the net book value of DMCI as of December 31, 1994, net of the deposits on future subscriptions of ₱100,412,800. Dacon Corporation and the other individual shareholders of the Company subsequently acquired additional shares of stock of the Company totalling to 544,513,577 shares at a par value of ₱1.00 per share or an aggregate value of ₱544,513,577. On June 20, 1995, the Company acquired the remaining shares of stock of DMCI totalling to ₱134,583,106 representing 33% of the paid-up capital of DMCI. The Company's preacquisition earnings, shown in the historical consolidated statement of income, representing the increase in the net book value of DMCI from December 31, 1994 to June 19, 1995 amounted to ₱102,423,545. On November 11, 1995, Dacon Corporation and the other individual shareholders of the Company contributed to the Company their share in such preacquisition earnings. Such additional contribution of ₱102,423,545 was credited to the "Additional paid-in capital" account in the historical consolidated balance sheet (see Note 2).

On July 3, 1995, the Board of Directors approved the listing of 383,434,000 shares of stock of the Company with the Philippine Stock Exchange (PSE). On August 17, 1995, the SEC authorized the Company to offer for sale to the public in an initial public offering, 306,747,000 primary shares and ₱76,687,000 secondary shares; representing 34% of the Company's outstanding capital stock, both at an offer price of ₱9.12 per share. The shares were listed with the PSE on December 18, 1995.

The excess of the offer price over the par value of the shares of stock net of the costs related to the initial public offering was credited to the “Additional paid-in capital” account in the consolidated balance sheet.

13. Income Taxes

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

	Historical	Pro Forma
Excess of book over tax income on uncompleted construction contracts	₱256,582,843	₱256,582,843
Unrealized foreign exchange gain	4,666,031	4,666,031
Customs duties on inventories	518,486	518,486
Deferred selling expenses	335,232	335,232
Allowance for inventory obsolescence	(9,342,307)	(9,342,307)
Excess of tax over book real estate revenues	(3,632,913)	(3,632,913)
Allowance for doubtful accounts	(1,198,572)	(1,198,572)
Unamortized past service cost contribution	(752,970)	(752,970)
	<u>₱247,175,830</u>	<u>₱247,175,830</u>

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

	Historical	Pro Forma
Provision for income tax computed at the statutory income tax rate of 35%	₱265,798,726	₱265,798,726
Increase (reduction) in income tax expense resulting from:		
Equity in net earnings of affiliated companies which is not taxable but was eliminated in consolidation	2,241,297	2,241,297
Tax loss position of the Company and certain subsidiaries	692,405	692,405
Non-deductible expenses	496,434	496,434
Equity in net earnings of unconsolidated affiliates	(7,971,015)	(7,971,015)
Interest income subjected to final tax	(6,695,097)	(6,695,097)
Dividend income exempt from income tax	(20,275)	(20,275)
Provision for income tax	<u>₱254,542,475</u>	<u>₱254,542,475</u>

14. Related Party Transactions

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

PDI has joint venture agreements with Rightfield Property Ventures, Inc. (RPVI), a 37.75% owned subsidiary of PDI, covering the development of two real estate projects. Under the terms of the agreements, PDI shall contribute to the joint ventures parcels of land which RPVI shall develop into high-rise, mixed-use condominiums. PDI also received from RPVI its initial contribution to the project amounting to ₱20 million as of December 31, 1995.

15. Retirement Plan

The Company's subsidiaries have tax-qualified and noncontributory retirement plans covering substantially all of their regular employees. Total retirement costs charged to operations amounted to about ₱5.4 million for the period ended December 31, 1995.

16. Contingencies and Commitments

DMCI is contingently liable for guarantees arising in the ordinary course of business, including bonds for various projects, standby letters of credit and letters of guarantee for performance, surety and warranty bonds amounting to about ₱3 billion as of December 31, 1995.

There are pending legal cases against the subsidiaries as of December 31, 1995 which are being contested by the subsidiaries and their legal counsels. The subsidiaries and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements.

The Company's subsidiaries lease a portion of their office premises, renewable under such terms and conditions that may be agreed upon with the lessors. The approximate minimum annual rentals on such leases after December 31, 1995 are not material to the consolidated results of operations.

On May 18, 1994, the Board of Directors of DMCI approved the purchase of the 49% equity of DMC Construction Equipment Resources, Inc. (CERI) in Vulcan Materials Corporation for about ₱6 million by way of an offset of liabilities; acquisition of the holdings of Asia Industries, Inc. in Asia Industries Materials Handling Equipment Corporation, Asia Industries Agro-Industrial Machinery Corporation, Asia Industries (Mindanao) Inc., and Asia Industries of Cebu, Inc. for a total price of about ₱10 million; and the sale of DMCI's 98% equity in DMC Shipbuilders, Inc. to M&S Company for about ₱11 million.

On June 30, 1994, the Board of Directors of DMCI also approved the declaration of its investments in shares of stocks of CERI and Asia Industries, Inc. with carrying values of about ₱128 million and ₱61 million, respectively, and certain real estate properties amounting to about ₱20 million, as property dividends in joint and proportionate ownership to stockholders of record as of that date.

SET II

DMCI HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

We have also examined the pro forma adjustments reflecting the events described in Note 2 to the consolidated financial statements and the application of those adjustments to the historical amounts in the accompanying historical consolidated financial statements of DMCI Holdings, Inc. and subsidiaries as of and for the ten months ended December 31, 1995. The pro forma adjustments are based on management's assumptions described in Note 2 to the consolidated financial statements. Our examinations included such procedures as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the events described in Note 2 to the consolidated financial statements occurred at an earlier date. However, the pro forma consolidated financial statements are not necessarily indicative of the results of operations, cash flows or related effects on financial position that would have been attained had the events described in Note 2 to the consolidated financial statements actually occurred earlier.

In our opinion management's assumptions described in Note 2 to the consolidated financial statements provide a reasonable basis for presenting the significant effects directly attributable to those events, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma consolidated balance sheet as of December 31, 1995, and the pro forma consolidated statements of income and cash flows for the year then ended, reflect the proper application of those adjustments to the historical financial statement amounts of DMCI Holdings, Inc. and subsidiaries as of and for the ten months ended December 31, 1995.

PTR No. 276643
January 10, 1996
Makati City

Makati City
April 12, 1996

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

4th Floor, Asia Industries Building
2881 Pasong Tamo Extension
Makati City

DMCI HOLDINGS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****DECEMBER 31, 1995****(Amounts In Thousands of Philippine Pesos, Except Number of Shares and Par Value)**

	Historical	Pro Forma
ASSETS		
Current Assets		
Cash and cash equivalents	₱174,098	₱174,098
Receivables - net (Note 4)	1,632,817	1,632,817
Costs in excess of billings on uncompleted contracts	21,165	21,165
Inventories - net (Note 5)	103,192	103,192
Other current assets	18,540	18,540
Total Current Assets	1,949,812	1,949,812
Funds Held by Custodian Bank (Note 6)	2,174,560	2,174,560
Real Estate Held for Sale and Development (Note 7)	419,843	419,843
Investments (Note 8)	488,286	488,286
Property, Plant and Equipment - net (Note 9)	831,341	831,341
Other Assets	38,756	38,756
	₱5,902,598	₱5,902,598
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Note 10)	₱43,400	₱43,400
Accounts payable and accrued expenses	636,213	636,213
Acceptances and trust receipts payable	144,011	144,011
Loans payable (Note 11)	71,374	71,374
Income tax payable	58,733	58,733
Subscriptions payable	122,738	122,738
Payables to affiliated companies (Note 14)	31,191	31,191
Deferred income tax (Note 13)	247,176	247,176
Total Current Liabilities	1,354,836	1,354,836
Billings in Excess of Costs on Uncompleted Contracts	589,178	589,178
Deferred Real Estate Revenues	31,927	31,927
Minority Interest	33,403	33,403
Stockholders' Equity		
Capital stock - ₱1 par value (Note 12)		
Authorized - 1,750,000,000 shares		
Issued - 1,127,747,000 shares	1,127,747	1,127,747
Additional paid-in capital (Note 12)	2,373,452	2,271,029
Net income	392,055	494,478
	3,893,254	3,893,254
	₱5,902,598	₱5,902,598

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIOD ENDED DECEMBER 31, 1995
(Amounts in Thousands of Philippine Pesos, Except
Earnings Per Share)

	Historical (Ten Months*)	Pro Forma (One Year)
REVENUES		
Construction contracts	P3,203,838	P3,203,838
Real estate sales	278,537	278,537
Merchandise sales	204,153	204,153
Equity in net earnings of unconsolidated affiliates (Note 8)	7,971	7,971
Interest and others	122,833	122,833
	3,817,332	3,817,332
COSTS AND EXPENSES		
Contract costs and expenses	2,589,836	2,589,836
General and administrative	272,593	272,593
Cost of merchandise sales	163,144	163,144
Cost of real estate sales	32,334	32,334
	3,057,907	3,057,907
INCOME BEFORE INCOME TAX	759,425	759,425
PROVISION FOR INCOME TAX (Note 13)		
Current	149,798	149,798
Deferred	104,745	104,745
	254,543	254,543
INCOME BEFORE MINORITY INTEREST AND PREACQUISITION EARNINGS	504,882	504,882
MINORITY INTEREST	(10,404)	(10,404)
INCOME BEFORE PREACQUISITION EARNINGS	494,478	494,478
PREACQUISITION EARNINGS (Notes 2 and 12)	(102,423)	-
NET INCOME	P392,055	P494,478
Earnings per Share	P0.73	P0.92

*The Company was incorporated on March 8, 1995.

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 1995
(Amounts in Thousands of Philippine Pesos)

	Historical (Ten Months*)	Pro Forma (One Year)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	P392,055	P494,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	112,359	112,359
Provision for deferred income tax	104,745	104,745
Preacquisition earnings	102,423	-
Minority interest	10,404	10,404
Gain on sale of property, plant and equipment	(267,935)	(267,935)
Equity in net earnings of unconsolidated affiliates	(7,971)	(7,971)
Increase in assets and liabilities:		
Receivables - net	(1,632,817))	(1,632,817))
Costs in excess of billings on uncompleted contracts	(21,165)	(21,165)
Inventories - net	(103,192)	(103,192)
Other current assets	(18,540)	(18,540)
Accounts payable and accrued expenses	636,212	636,212
Acceptances and trust receipts payable	144,011	144,011
Income tax payable	58,733	58,733
Payables to affiliated companies	31,191	31,191
Billings in excess of costs on uncompleted contracts	589,179	589,179
Deferred real estate revenues	31,927	31,927
Deferred income tax - net	142,431	142,431
Net cash provided by operating activities	304,050	304,050
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of property, plant and equipment	300,130	300,130
Funds held by custodian bank	(2,174,560)	(2,174,560)
Additions to:		
Property, plant and equipment	(975,894)	(975,894)
Real estate held for sale and development	(419,843)9)	(419,843)9)
Investments	(357,577)	(357,577)
Other assets	(38,757)	(38,757)
Net cash used in investing activities	(3,666,501)	(3,666,501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	3,398,776	3,398,776
Loans payable	71,374	71,374
Availments of bank loans	43,400	43,400
Minority interest	22,999	22,999
Cash provided by financing activities	3,536,549	3,536,549
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P174,098	P174,098

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW
INFORMATION**

Cash paid during the period for:		
Income tax	P105,545	P105,545
Interest (including capitalized interest of P19,245)	28,469	28,469

* The Company was incorporated on March 8, 1995.

See accompanying Notes to Consolidated Financial Statements.

DMCI HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands of Philippine Pesos, Except Number of Shares and Par Value)

1. Organization

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

2. Preparation and Purpose of Historical and Pro Forma Consolidated Financial Statements and Pro Forma Management Assumptions

The consolidated financial statements presented the historical amounts and pro forma information of DMCI Holdings, Inc. and subsidiaries as of and for the period ended December 31, 1995.

The historical consolidated financial statements reflect the financial position, results of operations and cash flows of the Company and its subsidiaries as of December 31, 1995 and for the period March 8, 1995 (date of incorporation) to December 31, 1995. The historical consolidated statement of income included the results of operations of DMCI for the year ended December 31, 1995 and PDI for the period from April 27, 1995 (date of incorporation) to December 31, 1995. However, since DMCI became a wholly owned subsidiary of the Company only on June 20, 1995, the historical consolidated net income of DMCI Holdings, Inc. and subsidiaries for the ten months ended December 31, 1995 did not include the net income of DMCI from January 1, 1995 to June 19, 1995 amounting to ₱102,423. Such amount was shown in the historical consolidated statement of income as "Preacquisition earnings" (see Note 12).

The pro forma consolidated financial statements, which were based on the historical financial statements of DMCI Holdings, Inc. and subsidiaries as of and for the ten months ended December 31, 1995, were prepared to show (for analysis purposes only) what the Company's financial position, results of operations and cash flows would have been as of and for the year ended December 31, 1995 had the Company's incorporation and transfers of DMCI shares of stock to the Company as discussed in Note 12 occurred on January 1, 1995. Accordingly, the following pro forma capital stock transactions were assumed to have taken place:

(a) Incorporation of the Company and Subscription to the Company's Shares of Stock

The Company was assumed to have been incorporated on January 1, 1995, with an authorized capital stock of ₱1,750,000 consisting of 1,750,000,000 shares at ₱1.00 par value. In connection with the Company's incorporation, Dacon Corporation (Dacon), the Company's principal stockholder, and other shareholders were assumed to have subscribed to 821,000,000 shares of the Company's capital stock at a par value of ₱1.00 per share or an aggregate value of ₱821,000.

(b) Assignment of DMCI Shares of Stock to the Company

It was also presumed that the deed of assignment of shares of stock executed by Dacon and other individual shareholders, on May 25, 1995, transferring to the Company their investment in the shares of stock of DMCI, representing 67% of DMCI's paid-up capital as of January 1, 1995, as payment for their subscriptions to 276,486,000 shares of the Company at a par value of ₱1.00 per share or an aggregate value of ₱276,486, was executed on January 1, 1995.

The balance of the Company's subscriptions receivable after effecting the foregoing pro forma transactions of ₱544,514 was paid to the Company by Dacon and other individual shareholders in 1995 as reflected in the historical consolidated financial statements.

(c) Acquisition of Additional DMCI Shares of Stock

It is further assumed that the Company acquired on January 1, 1995 the remaining 33% of DMCI's paid-up capital totalling to ₱134,583 (consisting of 134,583,106 shares at ₱1.00 par value), resulting in DMCI becoming a wholly owned subsidiary of the Company (in the historical consolidated financial statements, the remaining 33% paid-up capital of DMCI was acquired by the Company on June 20, 1995).

(d) Pro Forma Consolidated Net Income

As a result of the foregoing assumptions, the pro forma consolidated net income for the year ended December 31, 1995 of ₱494,478 included the net income of the Company for the ten months ended December 31, 1995, of DMCI and subsidiaries for the year ended December 31, 1995, and of PDI for the eight months ended December 31, 1995.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements included the accounts of the Company and its wholly owned subsidiaries, DMCI and PDI. The financial statements of DMCI included the accounts of its consolidated subsidiaries: Beta Electric Corporation (50.1% owned), Obayashi Philippines Corporation (56% owned), Asia Industries Agro-Industrial Machinery Corporation (50.1% owned) and Asia Industries Materials Handling Equipment, Inc. (53% owned). The accounts of PDI included the accounts of its wholly owned subsidiary, Tagig Land Development Corporation, which was incorporated on October 31, 1995 and has no income yet from commercial operations.

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

Revenue and Cost Recognition

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

Contract costs include all direct materials and labor costs, and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability including those arising from contract penalty provisions and final contract settlements that may result in revisions in estimated costs and gross margins are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

The asset, "Costs in excess of billings on uncompleted contracts," represents costs incurred in excess of amounts billed. The liability, "Billings in excess of costs on uncompleted contracts," represents billings in excess of revenues recognized. Contract retentions are included in contracts receivable.

Real Estate. Real estate sales which consist primarily of the sale of condominium units, where PDI has material obligations under the sales contracts to provide improvements after the property is sold are accounted for under the percentage of completion method. Under this method, the gain on sale is recognized as the related obligations are fulfilled. Revenues allocable to the unfulfilled obligations are deferred and presented as "Deferred Real Estate Revenues" in the consolidated balance sheet. 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.

Real estate costs that relate to the acquisition, development, improvement and construction of the real estate project are capitalized. Interest costs are capitalized while the development and construction of the real estate projects are in progress. Selling expenses incurred in connection with the sale of the condominium units are deferred and charged to operations when the related revenues are recognized.

Cash and Cash Equivalents

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

Inventories

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

Investments

Investments in the shares of stock of investee companies that are at least 20% owned are accounted for by the equity method. Under the equity method, the investments are carried at cost adjusted principally for the Company's equity in the net earnings or losses of the investee companies from the dates of acquisition. Equity in net earnings or losses is also adjusted for the straight-line amortization of the difference between the cost of the investment and the Company and its subsidiaries' equity in the underlying net assets of the investee companies at the dates of acquisition.

Other investments in shares of stock are carried at cost. An allowance is set up for any substantial and presumably permanent decline in the carrying value of such investments.

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

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties. Interest costs of DMCI aggregating to about ₱19,000 for the year ended December 31, 1995 for the purchase and construction of long term fixed assets are capitalized and are being amortized over the estimated useful lives of the related assets.

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

Preoperating Expenses

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

Income Taxes

Deferred income taxes are provided to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, resulting primarily from the differences in the carrying amount of contracts in progress and contracts receivable. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the period in which those temporary differences are expected to be recovered or settled.

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

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

Foreign Currency Transactions

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

Retirement Costs

Retirement costs are actuarially computed and are funded as accrued.

Earnings Per Share

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

4. Receivables

Receivables consisted of:

	Historical	Pro Forma
Contracts (including retention receivable on uncompleted contracts of about ₱196,000)	₱1,201,614	₱1,201,614
Advances to subcontractors and suppliers	241,414	241,414
Trade	59,361	59,361
Affiliated companies (see Note 14)	102,037	102,037
Others	53,623	53,623
	1,658,049	1,658,049
Less allowance for doubtful accounts	25,232	25,232
	₱1,632,817	₱1,632,817

5. Inventories

The details of inventories are as follows:

	Historical	Pro Forma
Equipment units and spare parts	₱38,649	₱38,649
Construction and installation materials, parts and supplies	45,529	45,529
	84,178	84,178
Less allowance for inventory obsolescence	4,964	4,964
	79,214	79,214
Equipment units, materials and spare parts in transit	23,978	23,978
	₱103,192	₱103,192

6. Funds Held by Custodian Bank

This account represents the balance of the proceeds of the initial public offering (see Note 12) deposited with a local custodian bank. The custodian bank has the duty of investing the funds, monitoring withdrawals or disbursements thereof, and ensuring that all withdrawals and orders for payments made are in connection with, or relating to, any of the purposes specified in the work program submitted to the Securities and Exchange Commission (SEC) in connection with the initial public offering. As of December 31, 1995, the Company had already disbursed from the fund ₱523,000 to finance its wholly owned subsidiaries' acquisitions of real estate properties and construction equipment in accordance with the work program.

7. Real Estate Held for Sale and Development

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

	Historical	Pro Forma
Real estate under development`	₱118,049	₱118,049
Land held for future development (see Note 11)	301,794	301,794
	₱419,843	₱419,843

As of December 31, 1995, the estimated cost to complete PDI's real estate project amounted to about ₱198,000.

8. Investments

The details of the investments account are as follows:

	Historical	Pro Forma
Shares of Stock:		
At equity		
Acquisition cost	₱270,573	₱270,573
Equity in net earnings:		
Balance at beginning of period	13,870	13,870
Equity in net earnings (net of dividends and goodwill amortization)	7,971	7,971
Disposals	6,200	6,200
Balance at end of period	28,041	28,041
	298,614	298,614
At cost	13,815	13,815
	312,429	312,429
Real Estate Properties:		
Land	142,927	142,927
Building units - net of accumulated depreciation of ₱2,913	32,930	32,930
	175,857	175,857
	₱488,286	₱488,286

The Company's share in the undistributed earnings of its subsidiaries and unconsolidated affiliates included in net income amounting to ₱379,252 is not currently available for dividend declaration by the Company until actually distributed by such subsidiaries and affiliates.

On December 22, 1995, the Board of Directors of DMCI approved the sale of its investment in the shares of stock of Asia Industries of Cebu, Inc. and Asia Industries (Mindanao), Inc. to Dacon for an aggregate value of about ₱5,000.

9. Property, Plant and Equipment

Property, plant and equipment consisted of:

	Historical	Pro Forma
Land and improvements	₱152,416	₱152,416
Leasehold improvements	7,213	7,213
Buildings and building improvements	34,563	34,563
Construction equipment and tools	929,000	929,000
Transportation equipment	90,907	90,907
Machinery and other equipment	10,590	10,590
Office furniture, fixtures and equipment	62,420	62,420
	1,287,109	1,287,109
Less accumulated depreciation and amortization	455,768	455,768
	₱831,341	₱831,341

In 1995, DMCI sold a building and a parcel of land which will no longer be used in its operations and realized a gain of about ₱242,000.

DMCI also acquired from an affiliate construction equipment amounting to about ₱22,000 in 1995. DMCI sold to other affiliated companies certain equipment and realized a gain of about ₱11,000.

10. Bank Loans

Bank loans consisted of obligations to local banks which bear interest at prevailing market rates. These loans are secured by real estate mortgages covering certain real estate properties of DMCI's subsidiaries, and joint suretyship agreements by certain stockholders and other affiliated companies.

11. Loans Payable

Loans payable represent the balance of PDI and its subsidiary's obligation to certain real estate property owners for the acquisition of real estate properties. As stipulated in the terms of the deed of absolute sale between PDI and the seller, PDI's loan payable of ₱39,600 shall be paid in proportion to the area of the acquired property which has been cleared by the property owner of all squatters and illegal structures.

12. Capital Stock

On May 25, 1995, Dacon and other individual shareholders of the Company executed a deed of assignment of shares of stock transferring to the Company their investments in the shares of stock of DMCI, representing 67% of DMCI's paid-up capital, as payment for their subscriptions to 276,486,000 shares of the Company at a par value of ₱1.00 per share or an aggregate value of ₱276,486. The Company recorded such contribution at the transfer price indicated in the deed of assignment, which is based on the net book value of DMCI as of December 31, 1994, net of the deposits on future subscriptions of ₱100,413. Dacon and the other individual shareholders of the Company subsequently acquired additional shares of stock of the Company totalling to 544,514,000 shares at a par value of ₱1.00 per share or an aggregate value of ₱544,514. On June 20, 1995, the Company acquired the remaining shares of stock of DMCI totalling to ₱134,583 representing 33% of the paid-up capital of DMCI. The Company's preacquisition earnings, shown in the historical consolidated statement of income, representing the increase in the net book value of DMCI from December 31, 1994 to June 19, 1995 amounted to ₱102,423. On November 11, 1995, Dacon and the other individual shareholders of the Company contributed to the Company their share in such preacquisition earnings. Such additional contribution of ₱102,423 was credited to the "Additional paid-in capital" account in the historical consolidated balance sheet (see Note 2).

On July 3, 1995, the Board of Directors approved the listing of 383,434,000 shares of stock of the Company with the Philippine Stock Exchange (PSE). On August 17, 1995, the SEC authorized the Company to offer for sale to the public in an initial public offering, 306,747,000 primary shares and 76,687,000 secondary shares; representing 34% of the Company's outstanding capital stock, both at an offer price of ₱9.12 per share. The shares were listed with the PSE on December 18, 1995.

The excess of the offer price over the par value of the shares of stock net of the costs related to the initial public offering was credited to the "Additional paid-in capital" account in the consolidated balance sheets.

13. Income Taxes

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

	Historical	Pro Forma
Excess of book over tax income on uncompleted construction contracts	P256,583	P256,583
Unrealized foreign exchange gain	4,666	4,666
Customs duties on inventories	518	518
Deferred selling expenses	335	335
Allowance for inventory obsolescence	(9,342)	(9,342)
Excess of tax over book real estate revenues	(3,633)	(3,633)
Allowance for doubtful accounts	(1,198)	(1,198)
Unamortized past service cost contribution	(753)	(753)
	P247,176	P247,176

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

	Historical	Pro Forma
Provision for income tax computed at the statutory income tax rate of 35%	P265,799	P265,799
Increase (reduction) in income tax expense resulting from:		
Equity in net earnings of affiliated companies which is not taxable but was eliminated in consolidation	2,241	2,241
Tax loss position of the Company and certain subsidiaries	693	693
Non-deductible expenses	496	496
Equity in net earnings of unconsolidated affiliates	(7,971)	(7,971)
Interest income subjected to final tax	(6,695)	(6,695)
Dividend income exempt from income tax	(20)	(20)
Provision for income tax	P254,543	P254,543

14. Related Party Transactions

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

PDI has joint venture agreements with Rightfield Property Ventures, Inc. (RPVI), a 37.75% owned subsidiary of PDI, covering the development of two real estate projects. Under the terms of the agreements, PDI shall contribute to the joint ventures parcels of land which RPVI shall develop into high-rise, mixed-use condominiums. PDI also received from RPVI its initial contribution to the project amounting to ₱20,000 as of December 31, 1995.

15. Retirement Plan

The Company's subsidiaries have tax-qualified and noncontributory retirement plans covering substantially all of their regular employees. Total retirement costs charged to operations amounted to about ₱5,400 for the period ended December 31, 1995.

16. Contingencies and Commitments

DMCI is contingently liable for guarantees arising in the ordinary course of business, including bonds for various projects, standby letters of credit and letters of guarantee for performance, surety and warranty bonds amounting to about ₱3,000,000 as of December 31, 1995.

There are pending legal cases against the subsidiaries as of December 31, 1995 which are being contested by the subsidiaries and their legal counsels. The subsidiaries and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements.

The Company's subsidiaries lease a portion of their office premises, renewable under such terms and conditions that may be agreed upon with the lessors. The approximate minimum annual rentals on such leases after December 31, 1995 are not material to the consolidated results of operations.