THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all of your shares in First Pacific Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

FIRST PACIFIC

FIRST PACIFIC COMPANY LIMITED

(Incorporated with limited liability under the laws of Bermuda)

Website: http://www.firstpacco.com

(Stock Code: 00142)

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF ADDITIONAL SHARES IN PHILIPPINE TELECOMMUNICATIONS INVESTMENT CORPORATION

Independent Financial Adviser to the Independent Board Committee and the Shareholders

SOMERLEY LIMITED

A notice convening a special general meeting of First Pacific Company Limited to be held at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR on Wednesday, 28 February 2007 at 10:00 a.m. is set out on pages 159 and 160 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy to the head office of First Pacific Company Limited (Attention: Corporate Secretarial Department) at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

12 February 2007

CONTENTS

Page

Definitions 1

Letter from the Board

Introduction 4
The Acquisition 5
Proposed Terms of the Sale and Purchase Agreement 6
Rationale for the Acquisition 7
Business of the Company and Others 8
Financial Effects of the Acquisition 8
Listing Rules Implications 9
Recommendations 9
Special General Meeting 10
Additional Information 10

Letter from the Independent Board Committee 11

Letter from the Independent Financial Adviser

Introduction 12
Background to and Proposed Terms of the Sale and Purchase Agreement 13
Summary of Business and Results of PLDT 14
History and Significance of the Company's Holding in PLDT 17
Share Price and Trading Volume of PLDT Shares 19
Comparable Analysis 21
Financial Effects of the Acquisition 23
Discussion and Analysis 24
Opinion 25

Appendix I – Financial Information of the Group 26

Appendix II – Financial Information of PTIC 129

Appendix III – Pro Forma Financial Information of the enlarged Group after the Acquisition 145

Appendix IV – General Information 150

Notice of Special General Meeting 159

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:–

"Acquisition"	the proposed acquisition of the Sale Shares by MPAH pursuant to the Sale and Purchase Agreement;
"ADRs"	American depositary shares of PLDT, evidenced by American depositary receipts. Each such share represents 1 share of common stock of PLDT;
"Board"	the board of directors of the Company;
"Circular"	this circular, which is issued by the Company to the Shareholders in respect of the proposed Acquisition;
"Company"	First Pacific Company Limited, a company incorporated in Bermuda with limited liability and which has its shares listed on the Stock Exchange;
"Completion"	completion of the Acquisition pursuant to the Sale and Purchase Agreement;
"Directors"	the directors of the Company;
"Escrow Agreement"	the escrow agreement proposed to be entered into between the Philippine Government, MPAH and the Company, amongst others, for the holding of approximately one half of the purchase price for the Sale Shares in escrow pending Completion;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong SAR;
"Hong Kong SAR"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Board Committee"	an independent committee of the Board, comprising Prof. Edward K.Y. Chen, GBS, CBE, JP, Mr. David W.C. Tang, OBE, Chevalier de L'Ordre des Artes et des Lettres and Mr. Graham L. Pickles being the independent non-executive Directors;
"Independent Financial Adviser"	Somerley, the independent financial adviser required to be appointed under Chapter 14A of the Listing Rules to make recommendations to the Independent Board Committee and the Shareholders as to whether the

	Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise Shareholders how to vote at the Special General Meeting;
"IndoAgri"	Indofood Agri Resources Ltd. (formerly known as "CityAxis Holdings Ltd."), a company incorporated in Singapore with limited liability and which has its shares listed on the Singapore Stock Exchange;
"Indofood"	PT Indofood Sukses Makmur Tbk, a company incorporated in Indonesia with limited liability and which has its shares listed on the Jakarta and Surabaya Stock Exchanges;
"Latest Practicable Date"	6 February 2007, being the latest practical date for the purpose of ascertaining certain information for the purpose of this Circular;
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Maynilad"	Maynilad Water Services, Inc., a company incorporated in the Philippines with limited liability;
"Model Code"	the Model Code for securities transactions by directors of companies listed on the Stock Exchange;
"MPAH"	Metro Pacific Assets Holdings, Inc., a company incorporated in the Philippines with limited liability, and a subsidiary of the Company in respect of which the Company is entitled to a 100% economic interest;
"MPC"	Metro Pacific Corporation, a Philippine corporation with limited liability;
"MPIC"	Metro Pacific Investments Corporation, a Philippine corporation with limited liability and which has its shares listed on the Philippine Stock Exchange;
"Philippine Government"	the government of the Republic of the Philippines;
"Php" or "Peso"	Philippine Peso, the lawful currency of the Republic of the Philippines;

"PLDT"	Philippine Long Distance Telephone Company, a company incorporated in the Philippines with limited liability, the shares of which are listed on the Philippine Stock Exchange and the ADRs of which are listed on the New York Stock Exchange; and currently an associated company of the Company;
"PTIC"	Philippine Telecommunications Investment Corporation, a company incorporated in the Philippines with limited liability;
"Sale and Purchase Agreement"	the sale and purchase agreement proposed to be entered into between MPAH as buyer, and the Philippine Government as seller, for the acquisition of the Sale Shares, the terms of which are summarised on pages 6 to 7 of this Circular;
"Sale Shares"	111,415 issued common shares in PTIC, representing approximately 46% of the total issued common shares in PTIC;
"SFO"	Securities and Futures Ordinance (Cap 571) of the laws of the Hong Kong SAR;
"Shareholders"	the shareholders of the Company;
"Singapore Stock Exchange"	Singapore Exchange Securities Trading Limited;
"Somerley"	Somerley Limited, the independent financial adviser appointed by the Company under Rule 14A.22 of the Listing Rules;
"Special General Meeting"	the special general meeting of the Company to be held at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR on Wednesday, 28 February 2007 at 10:00 a.m., the notice of which is set out in this Circular;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"U.S."	the United States of America; and
"US$"	United States dollars, the lawful currency of the U.S.

Unless otherwise specified, this Circular contains translations of certain Philippine Peso amounts into US$ amounts at the rate of US$1 = Pesos 49.39. The translations have been provided solely for the convenience of the readers of this Circular and no representation is made that any of the Pesos amounts actually represent the US$ amounts or could have been or could be converted into US$ at the specified rate, or at any particular rate or at all.

FIRST PACIFIC COMPANY LIMITED

(Incorporated with limited liability under the laws of Bermuda)
Website: http://www.firstpacco.com
(Stock Code: 00142)

Chairman:
Anthoni Salim

Executive Directors:
Manuel V. Pangilinan *(Managing Director and CEO)*
Edward A. Tortorici
Robert C. Nicholson

Non-Executive Directors:
Ambassador Albert F. del Rosario
Sutanto Djuhar
Tedy Djuhar
Ibrahim Risjad
Benny S. Santoso

Independent Non-Executive Directors:
Graham L. Pickles
Professor Edward K.Y. Chen, *GBS,CBE, JP*
David W.C. Tang,
OBE, Chevalier de L'Ordre des Arts et des Lettres

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Hong Kong Principal Office:
24th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong SAR

12 February 2007

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF ADDITIONAL SHARES IN PHILIPPINE TELECOMMUNICATIONS INVESTMENT CORPORATION

INTRODUCTION

The Company announced on 30 January 2007 that it proposed to acquire the Sale Shares, being an approximately 46% shareholding in PTIC, from the Philippine Government, by exercising a "right to match" in the context of a public auction by the Philippine

Government of that approximately 46% shareholding. PTIC is a single purpose holding company, holding PLDT shares representing approximately 13.8% of PLDT's issued common share capital.

The Philippine Government's shareholding in PTIC was obtained pursuant to a lawsuit against a third party on the basis that the shares were "ill gotten wealth" of that third party, and those shares were subsequently transferred to the Philippine Government pursuant to a court order. Thereafter, the Philippine Government offered the Sale Shares for sale under the public auction.

The remaining approximately 54% of PTIC not owned by the Philippine Government is owned by subsidiaries of the Company. Under the articles of incorporation of PTIC, the subsidiaries of the Company holding shares in PTIC and PTIC itself each have the benefit of a "right to match" in the case of a transfer of shares in PTIC. The "right to match" arising in favour of PTIC is the last to arise under the articles of incorporation of PTIC, following earlier "rights to match" which arose in favour of the subsidiaries of the Company holding shares in PTIC not having been exercised. PTIC's "right to match" will, however, be assigned to MPAH prior to the execution of the conditional Sale and Purchase Agreement and MPAH, as assignee of PTIC's "right to match" will exercise such "right to match" by purchasing the Sale Shares.

The "right to match" gives the Group the right to purchase the Sale Shares proposed to be sold under the public auction by the Philippine Government, at a price equal to the highest bid received in the auction. The highest bid received under the auction was an amount of Php226,338.9669 (US$4,582.69) per share of PTIC, which is equivalent to approximately Php2,100 (US$42.52) per share of PLDT held by PTIC. Under the articles of incorporation of PTIC, the Group has 30 days from the date of receipt of the notice of the proposed transfer within which to exercise the "right to match" and purchase the Sale Shares. It is anticipated that the "right to match" will be exercised by no later than 2 March 2007.

THE ACQUISITION

MPAH proposes to exercise the "right to match" under the PTIC articles of incorporation and thereby acquire the Sale Shares by entering into a conditional Sale and Purchase Agreement with the Philippine Government, the terms of which have been agreed in principle with the Philippine Government, prior to the date of the Special General Meeting and, accordingly, a further announcement will be made at the time of entering into the conditional Sale and Purchase Agreement. However, the Acquisition would constitute a major and connected transaction for the Company under the Listing Rules and, accordingly, the Company requires the prior approval of a resolution of the Shareholders before it can complete the Acquisition and, accordingly, the Sale and Purchase Agreement would be conditional on the approval of a resolution of Shareholders being obtained as required by the Listing Rules. Upon obtaining Shareholders approval for the Acquisition, Completion is expected to take place under the Sale and Purchase Agreement no later than 2 March 2007.

Pursuant to the notice of Special General Meeting contained in this Circular, the Company convenes a special general meeting of its Shareholders at which a resolution will be proposed to approve the Acquisition.

The consideration which would be required to be paid for the Sale Shares under the Sale and Purchase Agreement, pursuant to the terms of the "right to match", is equal to the highest bid received under the auction, being Php 226,338.9669 (US$4,582.69) per share of PTIC or approximately Php 25,217,556,000 (US$510,580,198) in total (before transaction expenses). The consideration would be financed from a combination of internal resources and third party financing.

Under the terms of the Sale and Purchase Agreement agreed in principle with the Philippine Government, on entering into the Sale and Purchase Agreement, approximately US$262,685,233, representing approximately one half of the purchase price for the Sale Shares, will be paid into an escrow account and held upon and subject to the terms of the Escrow Agreement. Under the Escrow Agreement, the amount held in escrow will only be released to the Philippine Government upon delivery of a written notice by the Company and the Company is not obliged to give such written notice if the approval of the Shareholders has not been obtained for the Acquisition as required by the Listing Rules. If the Acquisition is not approved by the Shareholders as required by the Listing Rules, the entire amount held in the escrow account will, upon written instructions of the Company, be returned to the Group under the terms of the Escrow Agreement. The Escrow Agreement contains an acknowledgement that the Company will not have any obligation to give the notice required to release the escrow amount to the Philippine Government unless and until the Acquisition has been approved by Shareholders as required by the Listing Rules. Following the Acquisition having been approved by Shareholders under the Listing Rules, it is anticipated that the amount held in escrow will be converted into Pesos and released to the Philippine Government on Completion of the Sale and Purchase Agreement.

PROPOSED TERMS OF THE SALE AND PURCHASE AGREEMENT

Upon the conditional exercise of the "right to match", MPAH would enter into the conditional Sale and Purchase Agreement with the Philippine Government. The form of the Sale and Purchase Agreement has been agreed in principle with the Philippine Government and would be on the following terms:

1. On Completion, the Philippine Government will sell, and MPAH will buy, the Sale Shares, which represent approximately 46% of the total common issued shares of PTIC.

2. The purchase price for the Sale Shares amounts to Php 25,217,556,000 (US$510,580,198), payable in full on Completion.

3. The Sale and Purchase Agreement is conditional on the approval of the Shareholders being obtained as required by the Listing Rules. If such approval is not obtained, MPAH will not have any obligation to complete the Acquisition and the Sale and Purchase Agreement would automatically terminate.

4. On Completion, the Philippine Government will transfer, and deliver share certificates in relation to, the Sale Shares to MPAH. Completion will take place shortly following the approval of the Acquisition by the Shareholders having been obtained, as required by the Listing Rules, and it is anticipated that Completion will occur not later than 2 March 2007.

5. The Philippine Government will provide certain warranties in favour of MPAH including that:

   (a) the Philippine Government is the legal and absolute and beneficial owner of the Sale Shares;

   (b) the Sale Shares have been duly and validly issued and are free of any incumbencies;

   (c) customary warranties as to capacity and authority to sell; and

   (d) the Philippine Government and its agencies have complied with all relevant laws governing the privatization of government assets including the requirement to undergo a public bidding process, and that the sale price is equal to or higher than the highest price offered to the Philippine Government during such public bidding process.

RATIONALE FOR THE ACQUISITION

The Company considers that the Acquisition represents an attractive opportunity to increase its economic interest in PLDT, which is one of the Group's principal assets. PLDT is the Group's largest contributor to recurring Group profit and is a critical strategic investment of the Group. PLDT has a leading market position in both mobile and fixed telephones in the Philippines and has grown this business significantly over the last few years. The Sale Shares offered for sale in the public auction by the Philippine Government are illiquid shares in a private non listed holding company, PTIC. The Company is in the unique position that its subsidiaries beneficially own the remainder of the issued share capital of PTIC. Accordingly, the acquisition of the Sale Shares will result in the Group beneficially owning 100% of PTIC and the underlying PLDT shares, representing approximately 13.8% of the issued common share capital of PLDT, held by PTIC. The purchase price payable for the Sale Shares is equivalent to approximately Pesos 2,100 (US$42.52) per share of PLDT held by PTIC, which compares favourably to the market price of a PLDT share at the Latest Practicable Date of Php 2,560 (US$51.8).

The Directors (including the independent non-executive Directors) consider that the terms of the proposed Acquisition are fair and reasonable and in the interests of the Shareholders as a whole and recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the Special General Meeting for approving the Acquisition.

BUSINESS OF THE COMPANY AND OTHERS

The Company is a Hong Kong based investment and management company with operations in South East Asia. The Company's principal business interests relate to telecommunications, consumer food products and infrastructure.

PTIC is a single purpose holding company incorporated in the Philippines which holds shares in PLDT.

PLDT, in which the Company currently holds an attributable economic interest in shares representing approximately 23% of the issued common share capital of PLDT, is the leading telecommunications services provider in the Philippines. It is based in Manila, and has shares of common stock listed on the Philippine Stock Exchange and ADRs listed on the New York Stock Exchange. Through its three principal business groups, PLDT offers a wide range of telecommunications services, including wireless, fixed line and information and communications technology. PLDT has developed the Philippines' most extensive fiber optic backbone, cellular, fixed line and satellite networks.

FINANCIAL EFFECTS OF THE ACQUISITION

The audited consolidated net profit attributable to the Shareholders for the year ended 31 December 2005 was approximately US$103.0 million after tax and US$165.4 million before tax and the audited consolidated net profit attributable to the Shareholders for the year ended 31 December 2004 was approximately US$123.9 million after tax and US$181.3 million before tax, respectively. The unaudited consolidated net profit attributable to the Shareholders for the six months ended 30 June 2006 was approximately US$72.2 million after tax and US$136.9 million before tax.

The audited consolidated net assets of the Group as at 31 December 2005 and 31 December 2004 were approximately US$382.8 million and US$227.4 million, respectively. The unaudited consolidated net assets of the Group as at 30 June 2006 was approximately US$446.9 million.

Following Completion, the Group's effective attributable interest in PLDT will increase from approximately 23% to approximately 29%. In view of the track record, earnings ability and customer base of PLDT, the Acquisition will have a positive impact on the earnings of the Group in the future.

After the Acquisition, the total assets of the enlarged Group will be increased by approximately US$420 million, which represents the cost of Acquisition, net of the utilization of internal cash resources of US$90.6 million. The total liabilities of the Group will also be increased by approximately US$420 million which represents the bank borrowings of US$420 million to finance such Acquisition. As a result, the net asset value of the Group is expected to remain the same upon Completion as illustrated in the unaudited pro forma statement of assets and liabilities of the enlarged Group in Appendix III. The amounts contained in this paragraph are based on the projected financing of the purchase price for the Sale Shares as at the Latest Practicable Date. These amounts may be subject to immaterial adjustments prior to Completion.

As at 31 December 2005, the Group's gearing ratio was 1.12 times. After the Acquisition, based on the above, the unaudited pro forma gearing ratio of the enlarged Group will be 1.84 times. The increase is mainly attributable to bank borrowing to finance the Acquisition.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company under the Listing Rules, which will require Shareholders' approval on the basis that one or more of the applicable percentage ratios in respect of the consideration thereby payable exceed 25% but is less than 100%.

The Philippine Government holds approximately 46% of PTIC and is, therefore, a substantial shareholder of a subsidiary of the Company. Accordingly, the Acquisition is also classified as a connected transaction under the Listing Rules and is, therefore, subject to prior approval by the Shareholders (by way of a poll) at the Special General Meeting.

RECOMMENDATIONS

The Company has established the Independent Board Committee, consisting of the independent non-executive Directors, to advise Shareholders as to whether the proposed Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise the Shareholders how to vote at the Special General Meeting. The Company has also appointed Somerley as the independent financial adviser required to be appointed under Chapter 14A of the Listing Rules, to make recommendations to the Independent Board Committee and the Shareholders as to whether the Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise Shareholders how to vote at the Special General Meeting.

A separate letter from the Independent Board Committee advising Shareholders that, in the opinion of the Independent Board Committee, formed after taking into account the recommendation of the Independent Financial Adviser, the Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole and advising the Shareholders to vote in favour of the resolution to approve the Acquisition at the Special General Meeting is set out on page 11 of this Circular. Shareholders' attention is drawn to the letter from the Independent Board Committee.

A separate letter from the Independent Financial Adviser, Somerley, containing its advice to the Independent Board Committee and the Shareholders that, having considered the matters set out in detail in that letter, the Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole and advising Shareholders to vote in favour of the resolution to approve the Acquisition at the Special General Meeting is set out on pages 12 and to 25 of this Circular. Shareholders' attention is also drawn to the letter from Somerley, the Independent Financial Adviser.

The Board is of the view that the Acquisition is fair and reasonable and is in the interests of the Company and its Shareholders as a whole and, accordingly, the Board recommends that the Shareholders vote in favour of the resolution to be proposed in relation to the Acquisition at the Special General Meeting.

SPECIAL GENERAL MEETING

A notice convening the Special General Meeting to be held at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR on Wednesday, 28 February 2007 at 10:00 a.m. is set out on pages 159 to 160 of this Circular.

Voting at the Special General Meeting will be taken on a poll.

A form of proxy for use at the Special General Meeting is enclosed. Whether or not Shareholders are able to attend the meeting, they are requested to complete and return the enclosed form of proxy to the Company's head office (Attention: Corporate Secretarial Department) at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the meeting should they wish to do so.

To the best of the knowledge and belief of the Directors, no Shareholder has a material interest in the matters which are the subject of the resolution before the Special General Meeting such that it must abstain from voting, and, accordingly, all Shareholders are permitted to vote at the Special General Meeting to be convened. First Pacific Investments Limited and First Pacific Investments (BVI) Limited, which together own approximately 44.26% of the Company's issued share capital, have confirmed their intention to vote in favour of the ordinary resolution to be proposed at the Special General Meeting.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular.

Yours faithfully,
For and on behalf of the Board of
First Pacific Company Limited
Manuel V. Pangilinan
Managing Director and CEO

FIRST PACIFIC COMPANY LIMITED

(Incorporated with limited liability under the laws of Bermuda)
Website: http://www.firstpacco.com
(Stock Code: 00142)

To the Shareholders 12 February 2007

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF ADDITIONAL SHARES IN PHILIPPINE TELECOMMUNICATIONS INVESTMENT CORPORATION

We refer to the circular of even date with this letter issued by the Company (the "Circular") to the shareholders of the Company of which this letter forms part. Terms defined in the Circular shall have the same meaning in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Shareholders in respect of the terms of the Acquisition, details of which are set out in the letter from the Board contained in the Circular.

Having considered the terms of the Acquisition and the advice and opinion of the Independent Financial Adviser in relation thereto as set out in the Circular, the Independent Board Committee considers that the Acquisition is on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Shareholders vote in favour of the resolution to be proposed at the Special General Meeting to approve the Acquisition.

The Independent Board Committee draws the attention of the Shareholders to the letter from the Board and the letter from Somerley to the Independent Board Committee and the Shareholders which sets out the considerations and factors taken into account in arriving at its recommendations, each as contained in the Circular.

Yours faithfully,
Independent Board Committee

Edward K.Y. Chen *GBS, CBE, JP*
Independent Non-Executive Director

Graham L. Pickles
Independent Non-Executive Director

David W.C. Tang
OBE, Chevalier de L'Ordre des Arts et des Lettres
Independent Non-Executive Director

The following is the text of the letter of advice to the Independent Board Committee and the Shareholders prepared by the Independent Financial Adviser for the purpose of inclusion in this Circular.

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

12 February 2007

To: The Independent Board Committee and the Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

PROPOSED ACQUISITION OF ADDITIONAL SHARES IN PHILIPPINE TELECOMMUNICATIONS INVESTMENT CORPORATION

1. INTRODUCTION

We refer to our appointment by the Company as the Independent Financial Adviser to the Independent Board Committee and the Shareholders to consider whether the proposal to purchase a strategic interest of a further approximately 46% of the issued common shares of PTIC, pursuant to the exercising of the "right to match" in the context of a public auction by the Philippine Government, is on normal commercial terms which are fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole. Details of the Acquisition are contained in the circular to the Shareholders dated 12 February 2007 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

PTIC is already an approximately 54% owned subsidiary of the Group. Approximately 53% stake in PTIC was acquired by the Group in 1998 while the remaining approximately 1% stake was acquired by the Group in 1999. The sole material asset of PTIC is an approximately 13.8% interest in PLDT, in which the Group currently has an approximately 23% attributable economic interest. The holding in PLDT is arguably the key strategic holding of the Company, with its attributable market value representing approximately 114.9% of the market capitalisation of the Company as at the Latest Practicable Date. PLDT is an associated company of the Company.

The remaining approximately 46% of PTIC not owned by the Group was subject to an auction process by the Philippine Government. As part of this process, the Philippine Government was registered as the shareholder of this block in December 2006, thereby becoming a substantial shareholder of a subsidiary of the Company and a connected person of the Company. The Acquisition is a major transaction and a connected transaction for the Company under the Listing Rules, and is subject to the approval of the Shareholders at the Special General Meeting. In this case, to the best of the knowledge and belief of the Directors, as there is no conflict of interest, no Shareholder is required to abstain from voting at the Special General Meeting for approving the Acquisition.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Graham L. Pickles, Professor Edward K.Y. Chen and Mr. David W.C. Tang, has been established to make a recommendation to the Shareholders on whether the proposed terms of the Acquisition are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Shareholders in this regard.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete as at the date of the Circular and will continue to be true up to the date of the Special General Meeting. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have, however, not conducted any independent investigation into the business and affairs of the Group or PLDT group.

2. BACKGROUND TO AND PROPOSED TERMS OF THE SALE AND PURCHASE AGREEMENT

The Philippine Government proposed to sell its approximately 46% interest of PTIC through public auction and the highest bid received under the auction was an amount of Php226,338.9669 (equivalent to approximately US$4,582.69) per share of PTIC, which is equivalent to approximately Php2,100 per share of PLDT held by PTIC. Under the articles of incorporation of PTIC, the subsidiaries of the Company holding shares in PTIC and PTIC itself each is entitled to a "right to match" in the case of a transfer of shares in PTIC. The "right to match" arising in favour of PTIC is the last to arise under the articles of incorporation of PTIC, following earlier "rights to match" which arose in favour of the subsidiaries of the Company holding shares in PTIC not having been exercised. PTIC's "right to match" will, however, be assigned to MPAH, a wholly-owned subsidiary of the Company, prior to the execution of the conditional Sale and Purchase Agreement and MPAH, as assignee of PTIC's "right to match" will exercise such "right to match" by purchasing the Sale Shares. This confers upon MPAH a right to purchase such approximately 46% shareholding in PTIC proposed to be sold under the public auction by the Philippine Government at a price of Php226,338.9669 (equivalent to approximately US$4,582.69) per share of PTIC, being the highest bid received under the auction.

MPAH proposes to exercise the "right to match" under the articles of incorporation of PTIC to acquire approximately 46% stake in PTIC offered under the auction at a total consideration of approximately Php25,217,556,000 (equivalent to approximately US$510,580,198) (before transaction expenses). The Acquisition cost of approximately US$510.6 million is intended to be satisfied as to approximately US$90.6 million by internal resources of the Group and as to approximately US$420 million by third party financing. In respect of the US$420 million third party financing, we are advised by the Directors that the Company has already drawn down a five-year term loan in the amount of US$270 million with principal amount repayable in full on the maturity date to finance the Acquisition. The remaining balance of approximately US$150 million will be financed by short-term borrowings. Given majority of the acquisition cost is to be financed by the US$270 million five-year term loan with a "bullet" maturity (i.e. repayable in full on the maturity date), the Group has adopted, in our view, a prudent structure for funding the Acquisition.

Pursuant to the conditional Sale and Purchase Agreement (expected to be entered into by MPAH and the Philippine Government prior to the date of the Special General Meeting), the terms of which have been agreed in principle with the Philippine Government, the Philippine Government would provide certain warranties in favour of MPAH for the acquisition of the Sale Shares. Details of the proposed terms of the Sale and Purchase Agreement are set out in the paragraph headed "Proposed terms of the Sale and Purchase Agreement" in the letter from the Board contained in the Circular. In particular, the Philippine Government will warrant it is the legal and absolute and beneficial owner of the Sale Shares. Approximately US$262,685,233, representing approximately one half of the purchase price for the Sale Shares, will be paid into an escrow account and held upon and subject to the terms of the Escrow Agreement. Pursuant to the Escrow Agreement, the amount held in escrow will only be released to the Philippine Government upon delivery of a written notice by the Company and the Company is not obliged to give such written notice if the approval of the Shareholders has not been obtained for the Acquisition. If the Acquisition is not approved by the Shareholders, the entire amount held in the escrow account will be, upon written instructions of the Company, returned to the Group.

The Directors expect that Completion will take place no later than 2 March 2007.

3. SUMMARY OF BUSINESS AND RESULTS OF PLDT

(i) Business of PLDT

PLDT, an associated company of the Group, was established over 70 years ago and is one of the leading telecommunications service companies in the Philippines providing a wide range of telecommunications services: wireless, fixed line and information and communications technology. PLDT has developed the Philippines' most extensive fiber optic backbone, cellular, fixed line and satellite networks.

(ii) Past results of PLDT

The following table summarises the consolidated results of PLDT for each of the two years ended 31 December 2005 extracted from the 2005 annual report of the Group. The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "Revised HKFRSs") taking effect for accounting periods beginning on or after 1 January 2005. Figures for 2004 have been adjusted in accordance with the Revised HKFRSs.

	Turnover			Profit		
US$ millions	**2005**	**2004**	**% change**	**2005**	**2004 (Restated)**	**% change**
Wireless	1,357.9	1,229.8	+10.4	714.6	503.8	+41.8
Fixed line	903.0	864.0	+4.5	133.7	314.8	–57.5
Information and Communications Technology	53.7	37.1	+44.7	1.8	14.9	–87.9
Inter-segment elimination	(113.3)	(77.2)	+46.8	–	–	–
Total	2,201.3	2,053.7	+7.2			
Segment result				850.1	833.5	+2.0
Net borrowing costs				(219.1)	(217.1)	+0.9
Share of profits less losses of associates				0.1	(1.3)	–
Profit before taxation				631.1	615.1	+2.6
Taxation				(57.0)	(101.7)	–44.0
Profit for the year				574.1	513.4	+11.8
Minority interest				(6.7)	1.3	–
Profit attributable to equity holders				567.4	514.7	+10.2
Preference dividends				(25.7)	(32.5)	–20.9
Profit attributable to ordinary shareholders				541.7	482.2	+12.3
Average shareholding held by the Group (%)				24.4	24.3	–
Contribution to the Group's recurring profit				132.2	117.1	+12.9

As shown above, the majority of the turnover was derived from the wireless segment which was also the key driver of 2005 performance. The wireless services revenue increased by approximately 10.4% to approximately US$1,357.9 million for the year ended 31 December 2005. Such increase was mainly contributed by the increase in wireless data revenues. PLDT had a cellular subscriber base of approximately 20.4 million as at the end of 2005, representing a market share of approximately 59%.

PLDT's fixed line business reported revenues of approximately US$903.0 million for the year ended 31 December 2005, resulting from the increase in data revenues which more than offset the decline in its traditional long distance voice revenues with a net effect of increasing the revenue by approximately 4.5%. The improvement in fixed line performance was also attributed to an expanding broadband business.

The information and communications technology business of PLDT is mainly carried out by ePLDT which operates internet data center, call centers, and internet and gaming operations. The information and communications technology segmental revenues increased by approximately 44.7% to approximately US$53.7 million for 2005. Such growth was primarily attributable to the growth in call center business. The call center business has grown exponentially in recent years with the Philippines becoming an increasingly attractive site for business process outsourcing. Consolidated call center revenues increased by approximately 52% to approximately US$35.4 million resulting from higher capacity utilization and higher prices charged for additional service demand.

It is stated in the 2006 interim report of the Company that PLDT continued to perform well and contributed approximately US$66.5 million recurring profit to that of the Group of approximately US$69.0 million for the six months ended 30 June 2006, representing approximately 13.1% increase as compared with that of the corresponding period. The wireless service revenues increased by approximately 6% to approximately US$740.8 million because of sustained growth in data revenue. On the other hand, the fixed line service revenues were flat at approximately US$462.5 million. ePLDT showed great growth with its revenue rising by approximately 36% to approximately US$34.5 million, of which approximately 68% was contributed from its call center business.

As set out above, we consider that PLDT is a successful company making a significant contribution to the Group's recurring profit.

(iii) Prospects of PLDT

As advised by the Directors, the revenue growth of PLDT is likely to come from broadband, business process outsourcing/call center and mobile. PLDT will continue to introduce various attractive innovative wireless broadband products and services. Moreover, PLDT will further strengthen its market leader position in wireless business through the ongoing network coverage and capacity expansion and market segmentation. This equips PLDT to transform itself from a cellular company into a multi-service wireless communications provider.

In July 2006, ePLDT further expanded its business portfolio to global business process outsourcing by acquiring the entire interests of SPi Technologies, Inc. ("SPi") which is the second largest pure-play business process outsourcing and the ninth largest independent business process outsourcing service provider worldwide. It has operations in North America, Europe and Asia. In August 2006, SPi acquired the entire interest of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia. The business process outsourcing (including call centers) contributed only 3% of total revenues of PLDT for 2005, but the Directors expect that this will rise to 10% over the next three to five years due to the increase in utilization rates and further expansion of the business by such acquisition. The Directors are optimistic concerning the business process outsourcing industry in the Philippines as its fragmented state offers opportunities to ePLDT to consolidate its market share and position in the industry.

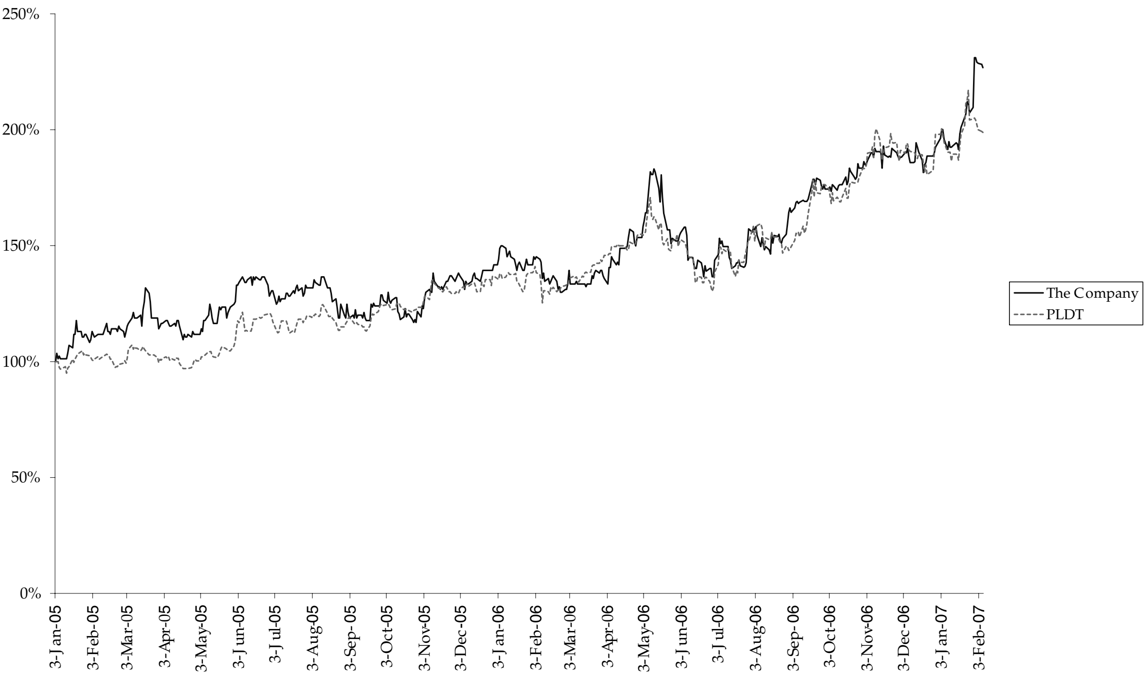
Accordingly, the Directors consider that the prospects of PLDT are, in general, promising.

4. HISTORY AND SIGNIFICANCE OF THE COMPANY'S HOLDING IN PLDT

The Group has invested in PLDT for over 8 years. Following the asset disposal program which commenced in December 1997, the Company looked for investment opportunities in Asia for the disposal proceeds. In evaluating the investment proposals, the Group targeted businesses in the region that were leaders in their home markets and had strong brand names. The Company concluded that PLDT, being a leading telecommunication operator in the Philippines, was an appropriate investment for the Group. In November 1998, the Company acquired an approximately 17.2% attributable economic interest, representing approximately 27.4% of the then voting interest in PLDT, for a total consideration of Php29.7 billion (equivalent to approximately Php1,420 per PLDT share, in terms of economic interest) by market purchases and the acquisition of a controlling interest of PTIC. Since then, the Company has been involved in the management of PLDT and Manuel V. Pangilinan, Managing Director of the Company, was appointed as the President and Chief Executive Officer of PLDT. Manuel V. Pangilinan is currently the Chairman of PLDT. The Company also nominated five other new directors to the board of PLDT in 1998. In view of good performance of PLDT, the Group continued to strengthen its interests in PLDT following the original acquisition in 1998 and currently holds an approximately 23% attributable economic interest and approximately 29% voting interest in PLDT.

PLDT is an associated company of the Group and its results are equity accounted for in the accounts of the Group. As shown in the 2005 annual report of the Group, PLDT contributed to approximately US$117.1 million and US$132.2 million to the recurring profit of the Group for the two years ended 31 December 2005 respectively (representing approximately 100.3% and 112.8% of the recurring profit of the Group for the two years ended 31 December 2005 respectively). Based on the 2006 interim report of the Group, PLDT contributed to approximately US$66.5 million to the recurring profit of the Group for the six months ended 30 June 2006 (or approximately 96.4% of the recurring profit of the Group of approximately US$69.0 million for the period). On this basis, most of the recurring profit of the Group was contributed by PLDT, demonstrating that PLDT is a critical strategic investment of the Group.

The chart below illustrates the relative performance of the shares of the Company as compared to those of PLDT for the period from 1 January 2005 up to and including the Latest Practicable Date (the "Period").



Source: Bloomberg

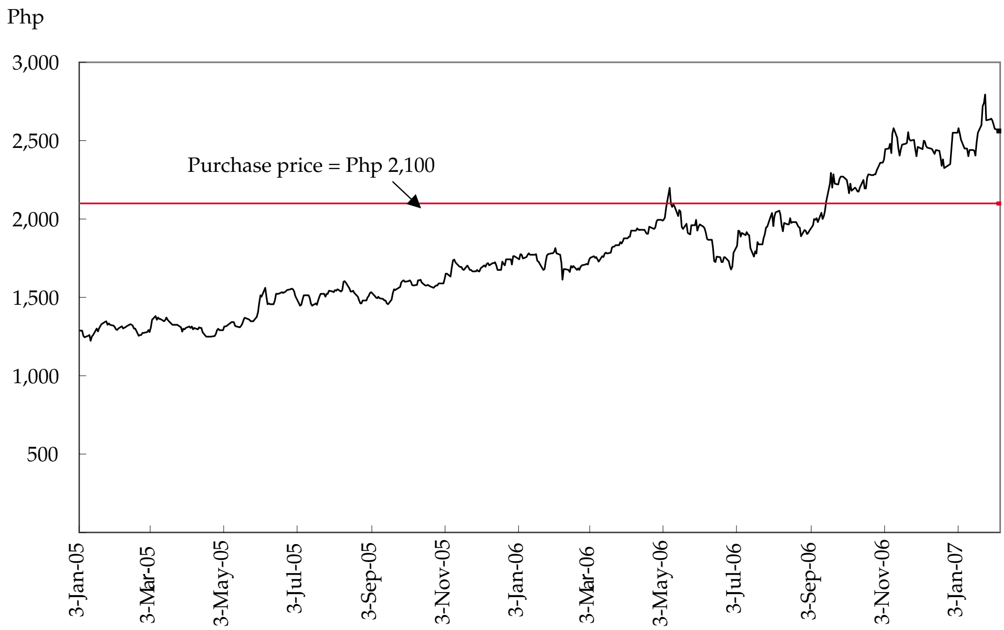
Based on the above, the share price of the Company closely tracked that of PLDT for the Period. This tracking phenomenon, in our opinion, reflects the market perception of PLDT as the core investment of the Group.

In view of PLDT's significant contribution to the recurring profit of the Group and the share price tracking phenomenon between the Company and PLDT, we consider that PLDT is a core strategic asset of the Company. Accordingly, we consider it is reasonable for the Company to consolidate its investment in PLDT by acquiring a further approximately 6.4% attributable interest in PLDT through the acquisition of approximately 46% interest of PTIC.

5. SHARE PRICE AND TRADING VOLUME OF PLDT SHARES

(i) PLDT share price

The chart below shows the daily closing prices of the PLDT shares on the Philippine Stock Exchange during the Period:



Source: Bloomberg

The purchase price of Php2,100 per PLDT share represents:

(a) a discount of approximately 18.0% to the closing price of Php2,560.0 per PLDT share as at the Latest Practicable Date;

(b) a discount of approximately 18.8% to the average closing price of approximately Php2,587.0 per PLDT share for the 10 trading days up to and including the Latest Practicable Date; and

(c) a discount of approximately 20.4% to the average closing price of approximately Php2,637.5 per PLDT share for the 30 trading days up to and including the Latest Practicable Date.

As illustrated by the chart above, the PLDT shares have been trading at a level above the purchase price of Php2,100 per PLDT share on the market since mid September 2006. In normal circumstances, the price for a minority stake in a private company holding listed shares would incorporate a discount to the attributable value of those listed shares. However, after the Acquisition, the Company will control 100% of PTIC, the private company in question and can maximise its options on how to deal with PTIC and its assets in future.

(ii) Trading volume of PLDT shares

The table below sets out the total number of PLDT shares traded per month for the period from 1 January 2005 to 31 January 2007:

	Total monthly trading volume of PLDT shares
	Number of PLDT shares
2005	
January	4,811,920
February	2,763,390
March	2,889,580
April	3,358,340
May	2,665,160
June	4,976,430
July	5,277,160
August	2,895,340
September	3,002,850
October	2,250,130
November	2,018,000
December	1,886,370
2006	
January	1,846,540
February	3,337,660
March	2,306,340
April	2,669,790
May	3,663,190
June	2,950,610
July	2,527,690
August	2,815,700
September	4,650,610
October	6,728,720
November	3,357,140
December	2,823,580
2007	
January	4,183,010
Average	**3,306,210**

Source: Bloomberg

PLDT had approximately 188.5 million shares in issue as at 29 January 2007. Based on the above table, the average monthly trading volume of PLDT shares during the period from 1 January 2005 to 31 January 2007 was approximately 3.3 million PLDT shares. The Company intends to acquire a further approximately 6.4% interest in PLDT by the acquisition of approximately 46% interest of PTIC, which represents approximately 12.1 million PLDT shares. Based on the average monthly trading volume of 3.3 million PLDT shares, this is equivalent to about 4 months' trading. On this basis, we consider the alterative of buying an equivalent number of PLDT shares in the market in a reasonable length of time and at a stable price is not a practical one.

On this basis, the acquisition of a further approximately 6.4% interest in PLDT by the acquisition of approximately 46% interest of PTIC is, in our view, an efficient way for the Company to consolidate its interests in PLDT at a price which is lower than the recent market price.

6. COMPARABLE ANALYSIS

In assessing whether the consideration is fair and reasonable, we have carried out research into other Asian telecommunications operating companies and the basis of their valuation.

(i) Comparison with listed companies

We have considered the price earnings (P/E) ratio and enterprise value ("EV")/ earnings before interest, taxation, depreciation and amortisation ("EBITDA") ratio of listed companies engaged in the telecommunications business. For this purpose, we have reviewed Asian telecommunications companies which have a similar service mix as PLDT. Generally speaking, we note that the two Indian mobile telecommunications operators listed below have a higher EV/EBITDA multiple than other Asian companies. This reflects in part the very rapid growth rate of the Indian market.

In our analysis, we have excluded Indian players and only compared PLDT with other similar emerging Asia courterparts ("Comparable Companies"). The valuation multiples set out below have been computed on a historical basis, using financial data obtained from their respective latest available annual/interim/ quarterly reports, as appropriate.

Comparables	Relative contribution to total revenue	Country	Current market cap *(US$ million)*	Price earnings ratio (P/E)	EV/ EBITDA
Indian companies (excluded)					
Bharti Airtel Limited	70% Mobile 12% Fixed-line 12% Broadband	India	33,175.40	64.0	19.20
Reliance Communications Limited ("Reliance")	61% Mobile 30% Fixed-line 6% Broadband	India	22,714.80	N/A	15.20

Note: Reliance recorded a profit of approximately US$1.3 million for the year ended 31 December 2005, which we consider not meaningful as a basis to calculate P/E and EV/EBITDA ratios in view of its large market capitalization of about US$23 billion.

Comparables		Relative contribution to total revenue	Country	Current market cap (US$ million)	Price earnings ratio (P/E)	EV/ EBITDA
Other Asian telecommunication operators						
Hutchison Telecommunications International Limited ("HTIL")		91% Mobile 9% Fixed-line	Hong Kong	11,560.53	N/A	12.58

Note: HTIL recorded a loss of approximately HK$150 million for the year ended 31 December 2005 and hence no P/E ratio is available.

Comparables		Relative contribution to total revenue	Country	Current market cap (US$ million)	Price earnings ratio (P/E)	EV/ EBITDA
Maxis Communications Berhad		97% Mobile 3% Fixed-line	Malaysia	8,666.60	17.83	6.03
Starhub Limited		52% Mobile 14% Fixed-line 17% Cable 11% Broadband	Singapore	3,517.84	22.98	9.39
PT Telekomunikasi Indonesia Tbk.		35% Mobile 26% Fixed-line 35% Broadband	Indonesia	21,146.83	23.83	5.13
Chungwa Telecom Company Limited		40% Mobile 36% Fixed-line 23% Broadband	Taiwan	18,813.30	18.60	5.28
AVERAGE OF COMPARABLE COMPANIES					**20.81**	**7.68**
PLDT	at Php 2,100 per PLDT share	**60% Mobile** **40% Fixed-line**	**Philippines**	**8,017.12**	**11.05**	**5.92**

Source: Bloomberg

As noted from the above table, the implied P/E and EV/EBITDA ratios for PLDT represented by the consideration for the Acquisition (based on Php2,100 per PLDT share) are at the lower end of the range of present rating of the Comparable Companies and are lower than the average of the relevant ratios of the Comparable Companies. On this basis, we consider the consideration represents good value for the Company.

(ii) Recent acquisitions in the telecommunications industry:

Since September 2005, there have been a number of transactions which involved the acquisition of telecommunication interests ("Comparable Deals") as summarised below:

Date announced	Acquiror	Target	% Acquired	Deal Size *(US$ million)*[1]	EV/EBITDA[2]
13 Oct 2006	Providence Equity Partners LLC	Idea Cellular Limited	16.0	400	13.3
30 Jun 2006	HTIL	Hutchison Essar Limited	5.1	450	19.3
10 Apr 2006	Aditya Birla Nuvo Limited	Idea Cellular Limited	48.1	990	12.1
10 Mar 2006	Telekom Malaysia Berhad	Spice Communication Private Limited	49.0	179	15.0
26 Dec 2005	Maxis Communications Berhad	Aircel Cellular Limited	74.0	800	20.0
28 Oct 2005	Vodafone Group Plc	Bharti Airtel Limited	10.05	1,481	18.9
18 Oct 2005	Essar Teleholdings Limited	Hutchison Essar Limited	3.2	147	14.3
26 Sep 2005	Hutchison Essar Limited	BPL Mobile Communications Limited	100.0	1,128	19.1
Mean					**16.5**

1. Reflects value of equity stake purchased in transaction.

2. Based on historical last 12 months EBITDA for HTIL/Hutch Essar, Vodafone/Bharti, Essar/Hutch Essar. Values for remaining deals based on estimates for EV/FY05EBITDA from brokerage research reports.

As shown in the table above, the implied EV/EBITDA for PLDT of 5.92 times represented by the consideration for the Acquisition is the lowest amongst the Comparable Deals and is significantly lower than their mean of 16.5.

7. FINANCIAL EFFECTS OF THE ACQUISITION

Following Completion, the Group's effective attributable interest in PLDT will increase from approximately 23% to approximately 29%. PLDT will remain as an associated company of the Group and its results will continue to be equity accounted for in the accounts of the Group. In view of the profitable track record as shown in the paragraph headed "Summary of business and results of PLDT" above, the consolidation of the Group's control over the approximately 13.8% stake in PLDT by the Acquisition will have a positive impact on the earnings of the Group.

Based on the pro forma financial information of the enlarged Group after the Acquisition set out in Appendix III to the Circular, the total assets of the Group will be increased by approximately US$420 million (representing the acquisition cost for the approximately 46% stake of PTIC of approximately US$510.6 net of the internal cash resources of approximately US$90.6 million utilized for funding the Acquisition) immediately following Completion. In this pro forma analysis, the total liabilities of the Group will also be increased by approximately US$420 million due to the additional bank borrowings for the Acquisition. As a result of the increase in bank borrowings and the utilisation of internal resources to fund the Acquisition, the pro forma gearing of the Group (calculated on the basis of net debt divided by total equity) will increase from approximately 1.12 times as at 31 December 2005 to approximately 1.84 times. However, as the borrowings for financing the Acquisition are mostly long-term and the assets being acquired are effectively listed shares, which the Group can readily liquidate to repay the bank borrowings if the Group is required to do so. In this context, we consider this increase in gearing remains within prudent limits. If the Group were to mark its attributable interest in PLDT to market, the gearing level as calculated above would be considerably less.

8. DISCUSSION AND ANALYSIS

The Acquisition involves the purchase of a further approximately 46% stake in PTIC, the sole material asset of which is a holding of approximately 13.8% of PLDT's issued common share capital. Although this represents a minority stake in an unlisted vehicle, as the Company already holds approximately 54% of PTIC, the Acquisition will allow the Company to further consolidate its control over the approximately 13.8% stake in PLDT, bringing its economic interest in PLDT up to approximately 29%.

PLDT is a growing and successful company with which the Company is fully familiar, having held a significant investment since 1998. PLDT has become a core asset of the Group, with its attributable market value to the Group exceeding the market capitalisation of the Company and with a strong correlation between the movements of the two companies' share prices. We consider therefore that the opportunity which has occurred for the Company to consolidate its control of PTIC is in line with the strategic direction of the Company.

Average trading in the PLDT shares in the market is about 3.3 million shares per month. As the Acquisition is equivalent to about 12.1 million PLDT shares, we do not think it would be possible to accumulate such a holding by market purchases without driving the price sharply higher.

The equivalent price of Php2,100 per PLDT share is attractive compared to recent market prices, with the PLDT shares closing at Php2,560 on the Latest Practicable Date. The ratings of comparable Asian telecommunication operators and recent past transactions in the industry are also at higher levels than the levels reflected by the Acquisition.

The gearing of the Group after completion of the Acquisition will increase (on a pro forma basis) from approximately 1.12 times as at 31 December 2005 to approximately 1.84 times. However, we consider it remains within prudent limits in the circumstances, as discussed in the paragraph headed "Financial effects of the Acquisition" above.

The price was set in this case by an open auction price, with the right of MPAH, a wholly-owned subsidiary of the Company, to match it arising from the terms of PTIC's articles of incorporation. To the best of knowledge and belief of the Directors, there is no conflict of interest in this case and all Shareholders will be able to vote at the Special General Meeting.

9. OPINION

Based on the above principal factors and reasons, we consider that the Acquisition is on normal commercial terms which are fair and reasonable to the Shareholders and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Shareholders to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Acquisition.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

A. FINANCIAL STATEMENTS FOR LAST THREE FINANCIAL YEARS

1. SUMMARY OF FINANCIAL RESULTS AND CONDITIONS OF THE FIRST PACIFIC GROUP

The following financial information has been extracted from the audited consolidated financial statements of the Group as published in the Company's annual reports for the years ended 31 December 2004 and 2005 and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2006.

	Six months ended 30 June	**Year ended 31 December**		
	2006	**2005**	**2004**	**2003**
	US$ million	*US$ million*	*US$ million*	*US$ million*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Turnover	1,136.5	1,986.1	2,054.6	2,161.8
Profit before taxation	136.9	165.4	181.3	170.2
Taxation	(39.6)	(26.6)	(31.9)	(35.2)
Profit for the period/year from continuing operations	97.3	138.8	149.4	135.0
Profit for the period/year from a discontinued operation	–	–	18.8	–
Profit before minority interest	97.3	138.8	168.2	135.0
Minority interest	(25.1)	(35.8)	(44.3)	(60.9)
Profit attributable to equity holders of the parent	72.2	103.0	123.9	74.1
Ordinary share dividends				
Interim – 2006 and 2005: U.S. 0.13 cent (2004 and 2003: Nil) per share	4.1	4.1	–	–
Final – 2005: U.S. 0.26 cent (2004 and 2003: Nil) per share		8.2	–	–
		12.3	–	–
Earnings per share (U.S. cents)				
– Basic	2.26	3.23	3.89	2.33
– Diluted	2.23	3.17	N/A	N/A

N/A: Not applicable

Assets and liabilities of the Group

	As at 30 June	As at 31 December		
	2006	**2005**	**2004**	**2003**
	US$ million	*US$ million*	*US$ million*	*US$ million*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	2,624.9	2,347.1	2,168.7	2,213.5
Less: Total liabilities	1,773.8	1,640.4	1,577.6	1,785.7
Minority interest	404.2	323.9	363.7	376.7
Net assets	446.9	382.8	227.4	51.1

Note: The financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which also include the Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Generally Accepted Accounting Principles ("HK GAAP"). Significant changes to HK GAAP had been implemented since 2005 as a consequence of a number of new and revised HKASs and HKFRSs issued by the HKICPA, which became effective for accounting periods commencing on, or after 1 January 2005. The key changes have been summarized in Note 2(B) to the consolidated financial statements for the year ended 31 December 2005 and Note 1(b) to the condensed consolidated financial statements for the six months ended 30 June 2006 as set out on pages 61 to 65 and page 35, respectively, of this Appendix.

2. UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2006 AND 30 JUNE 2005

Set out below are the unaudited condensed consolidated financial statements of the Company for the six month periods ended 30 June 2006 and 30 June 2005, respectively, together with the notes thereon extracted from the interim report of the Company for the six month period ended 30 June 2006.

Condensed Consolidated Profit and Loss Statement

		(Unaudited) For the six months ended 30 June	
		2006	**2005**
	Notes	*US$ millions*	*US$ millions*
Turnover	*2*	1,136.5	942.5
Cost of sales		(851.2)	(702.7)
Gross Profit		285.3	239.8
Gain on dilutions and divestments		17.3	3.0
Distribution costs		(95.8)	(81.7)
Administrative expenses		(65.6)	(57.3)
Other operating expenses, net		(13.8)	(9.3)
Net borrowing costs	*3*	(58.7)	(59.2)
Share of profits less losses of associated companies		68.2	71.1
Profit Before Taxation	*4*	136.9	106.4
Taxation	*5*	(39.6)	(20.4)
Profit for the Period		97.3	86.0
Attributable to:			
Equity holders of the parent	*6*	72.2	60.8
Minority interest		25.1	25.2
		97.3	86.0
Ordinary Share Dividend	*7*		
U.S. 0.13 cent (2005: U.S. 0.13 cent) per share		4.1	4.1
Earnings Per Share Attributable to Equity Holders of the Parent (U.S. cents)	*8*		
Basic		2.26	1.91
Diluted		2.23	1.74

Condensed Consolidated Balance Sheet

	Notes	(Unaudited) At 30 June 2006 US$ millions	At 31 December 2005 US$ millions
Non-current Assets			
Property and equipment	*10*	740.2	622.9
Plantations		234.4	169.0
Associated companies	*11*	418.8	381.7
Financial assets at fair value through profit or loss	*12*	70.4	–
Accounts receivable, other receivables and prepayments	*13*	15.8	11.7
Goodwill		40.9	32.7
Prepaid land premiums		34.2	34.5
Available-for-sale assets		4.6	2.7
Deferred tax assets		17.0	15.4
Other non-current assets		114.4	130.8
		1,690.7	1,401.4
Current Assets			
Cash and cash equivalents		309.8	296.0
Restricted cash	*17(d)*	4.5	4.7
Available-for-sale assets		53.8	52.4
Accounts receivable, other receivables and prepayments	*13*	263.9	286.7
Inventories		299.9	303.0
Non-current assets held for sale		2.3	2.9
		934.2	945.7
Current Liabilities			
Accounts payable, other payables and accruals	*14*	296.7	278.6
Short-term borrowings		422.1	345.0
Provision for taxation		15.5	11.2
Current portion of deferred liabilities and provisions	*15*	5.9	15.3
		740.2	650.1
Net Current Assets		194.0	295.6
Total Assets Less Current Liabilities		1,884.7	1,697.0

	Notes	(Unaudited) At 30 June 2006 US$ millions	At 31 December 2005 US$ millions
Equity			
Issued share capital		31.9	31.9
Other reserves		928.0	927.9
Accumulated losses		(513.0)	(577.0)
Equity attributable to equity holders of the parent		446.9	382.8
Minority interest		404.2	323.9
Total Equity		851.1	706.7
Non-current Liabilities			
Long-term borrowings		732.5	744.2
Deferred liabilities and provisions	*15*	98.6	92.7
Deferred tax liabilities		163.3	114.1
Derivative liability	*16*	39.2	39.3
		1,033.6	990.3
		1,884.7	1,697.0

Condensed Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the parent									
	Issued capital *US$ millions*	Share premium *US$ millions*	Share options issued *US$ millions*	Unrealized gains on available-for-sale assets *US$ millions*	Unrealized (losses)/ gains on cash flow hedges *US$ millions*	Exchange reserve *US$ millions*	Accumulated losses *US$ millions*	Total *US$ millions*	Minority interest *US$ millions*	(Unaudited) Total equity *US$ millions*
Balance at 1 January 2005	31.9	958.2	4.4	1.7	–	(59.8)	(675.2)	261.2	363.7	624.9
Changes in equity for 2005:										
Exchange differences on translating foreign operations	–	–	–	–	–	(6.8)	–	(6.8)	(14.9)	(21.7)
Unrealized gains on available-for-sale assets	–	–	–	0.7	–	–	–	0.7	–	0.7
Unrealized losses on cash flow hedges	–	–	–	–	(2.2)	–	–	(2.2)	–	(2.2)
Net income and expense recognized directly in equity	–	–	–	0.7	(2.2)	(6.8)	–	(8.3)	(14.9)	(23.2)
Net profit for the period	–	–	–	–	–	–	60.8	60.8	25.2	86.0
Total recognized income and expense for the period	–	–	–	0.7	(2.2)	(6.8)	60.8	52.5	10.3	62.8
Dilution of interest in an associated company	–	–	–	–	–	0.2	–	0.2	–	0.2
Change in attributable interests	–	–	–	–	–	–	–	–	(1.6)	(1.6)
Dividends declared and paid to minority shareholders	–	–	–	–	–	–	–	–	(29.4)	(29.4)
Equity-settled share option arrangements	–	–	3.4	–	–	–	–	3.4	–	3.4
Balance at 30 June 2005	31.9	958.2	7.8	2.4	(2.2)	(66.4)	(614.4)	317.3	343.0	660.3

	Equity attributable to equity holders of the parent									
	Issued capital	Share premium	Share options issued	Unrealized gains on available-for-sale assets	Unrealized (losses)/ gains on cash flow hedges	Exchange reserve	Accumulated losses	Total	Minority interest	(Unaudited) Total equity
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
Balance at 1 January 2006	31.9	959.1	9.3	6.4	4.0	(50.9)	(577.0)	382.8	323.9	706.7
Changes in equity for 2006:										
Exchange differences on translating foreign operations	–	–	–	–	–	6.4	–	6.4	16.3	22.7
Unrealized gains on available-for-sale assets	–	–	–	1.3	–	–	–	1.3	1.3	2.6
Unrealized losses on cash flow hedges	–	–	–	–	(10.0)	–	–	(10.0)	–	(10.0)
Net income and expense recognized directly in equity	–	–	–	1.3	(10.0)	6.4	–	(2.3)	17.6	15.3
Net profit for the period	–	–	–	–	–	–	72.2	72.2	25.1	97.3
Total recognized income and expense for the period	–	–	–	1.3	(10.0)	6.4	72.2	69.9	42.7	112.6
Dilution and divestment of interest in an associated company	–	–	–	–	–	0.4	–	0.4	–	0.4
Acquisition of subsidiary companies	–	–	–	–	–	–	–	–	35.9	35.9
Shares issued to minority interest by a subsidiary company	–	–	–	–	–	–	–	–	2.5	2.5
Change in attributable interests	–	–	–	–	–	–	–	–	1.5	1.5
Dividends declared to minority shareholders	–	–	–	–	–	–	–	–	(2.3)	(2.3)
Issue of shares upon the exercise of share options	–	0.2	(0.1)	–	–	–	–	0.1	–	0.1
Equity-settled share option arrangements	–	–	1.9	–	–	–	–	1.9	–	1.9
Dividends	–	–	–	–	–	–	(8.2)	(8.2)	–	(8.2)
Balance at 30 June 2006	31.9	959.3	11.1	7.7	(6.0)	(44.1)	(513.0)	446.9	404.2	851.1

Condensed Consolidated Cash Flow Statement

		(Unaudited) For the six months ended 30 June	
		2006	**2005**
	Notes	*US$ millions*	*US$ millions*
Profit Before Taxation		136.9	106.4
Adjustments for:			
Interest expenses		68.3	64.6
Depreciation		31.5	32.7
Decrease/(increase) in other non-current assets		23.0	(4.3)
Decrease in accounts receivables, other receivables and prepayment (Non-current)		3.9	5.6
Equity-settled share option expense		1.4	3.4
Recognition of prepaid land premiums		1.4	1.1
Loss on changes in fair value of non-current assets held for sale		0.6	–
Share of profits less losses of associated companies		(68.2)	(71.1)
Gain on changes in fair value of plantations		(30.0)	(8.5)
Gain on dilution of interest in an associated company		(10.2)	(3.0)
Interest income		(9.6)	(5.4)
Gain on divestment of interest in an associated company		(7.1)	–
Gains on sale of property and equipment		(0.7)	–
Dividend income from financial assets at fair value through profit or loss		(0.5)	–
Foreign exchange and derivative (gains)/losses, net		(0.4)	24.3
Dividend income from available-for-sale assets		–	(1.3)
Others		13.1	5.2
Operating profit before working capital changes		153.4	149.7
Decrease in working capital [(i)]		18.4	23.0
Net cash generated from operations		171.8	172.7
Interest received		7.8	4.8
Interest paid		(55.2)	(53.8)
Tax paid		(15.8)	(37.5)
Net Cash Inflow from Operating Activities		108.6	86.2

(i) Changes in working capital are stated excluding movements due to acquisition and disposal of subsidiary companies.

	Notes	(Unaudited) For the six months ended 30 June 2006 US$ millions	2005 US$ millions
Dividend received from an associated company		23.3	10.0
Proceeds from sale of property and equipment and others		6.3	2.2
Dividend received from financial assets at fair value through profit or loss		0.5	–
Acquisition of assets designated as financial assets at fair value through profit or loss	*17(a)*	(66.5)	–
Acquisition of subsidiary companies	*17(b)*	(31.7)	1.0
Purchase of property and equipment and others		(27.2)	(23.6)
Increased investment in an associated company	*17(c)*	(6.1)	(28.2)
Loans to associated companies		(1.1)	(0.2)
Acquisitions of available-for-sale assets		(0.3)	(22.5)
Proceeds from termination of derivative transactions		–	96.3
Acquisition of an associated company		–	(15.0)
Net Cash (Outflow)/Inflow from Investing Activities		(102.8)	20.0
Net borrowings raised/(repaid)		9.2	(8.8)
Shares issued to minority interest by a subsidiary company		2.5	–
Decrease in restricted cash		0.2	–
Issue of shares upon the exercise of share options		0.1	–
Dividend paid to shareholders		(8.2)	–
Dividends paid to minority shareholders by a subsidiary company		–	(21.7)
Net Cash Inflow/(Outflow) from Financing Activities		3.8	(30.5)
Net Increase in Cash and Cash Equivalents		9.6	75.7
Cash and cash equivalents at 1 January		296.0	186.6
Exchange translation		4.2	(4.6)
Cash and Cash Equivalents at 30 June		309.8	257.7
Representing			
Cash and cash equivalents		309.8	257.7

Notes to the Condensed Interim Financial Statements

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

(a) Basis of Preparation

The Condensed Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) issued by The Stock Exchange of Hong Kong Limited (SEHK). The Condensed Interim Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Group's 2005 audited Financial Statements, except as described below.

(b) Impact of New and Revised HKFRSs

Certain changes to Hong Kong Generally Accepted Accounting Principles (Hong Kong GAAP) have been implemented during 2006 as a consequence of the following new and revised HKASs, Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong (International Financial Reporting Interpretations Committee) – Interpretations (HK(IFRIC) – Ints) issued by the HKICPA, which became effective for accounting periods commencing on, or after, 1 January 2006:

HKAS 19 Amendment	"Actuarial Gains and Losses, Group Plans and Disclosures"
HKAS 21 Amendment	"The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation"
HKAS 39 Amendment	"Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
HKAS 39 Amendment	"The Fair Value Option"
HKAS 39 and HKFRS 4 Amendments	"Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts"
HKFRSs 1 & 6 Amendments	"First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources"
HKFRS 6	"Exploration for and Evaluation of Mineral Resources"
HK(IFRIC)-Int 4	"Determining whether an Arrangement contains a Lease"
HK(IFRIC)-Int 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
HK(IFRIC)-Int 6	"Liabilities Arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment"

Except for HKAS 39 Amendment "The Fair Value Option", the adoption of the pronouncements listed above has had no material impact on the accounting policies of the Group and the methods of computation in the Group's Condensed Interim Financial Statements. The adoption of HKAS 39 Amendment "The Fair Value Option" has resulted in the Group applying more restrictive criteria for designating financial instruments as financial assets/liabilities at fair value through profit or loss.

During the period, the Group designated 1.1 per cent interest in PLDT acquired during 2006 as financial assets at fair value through profit or loss. Please refer to Note 12 for details. The adoption has had no effect on both the profit attributable to equity holders of the parent for the periods ended 30 June 2006 and 30 June 2005 and equity attributable to equity holders of the parent at 30 June 2006 and 31 December 2005.

2. TURNOVER AND SEGMENTAL INFORMATION

	For the six months ended 30 June 2006	2005
	US$ millions	*US$ millions*
Turnover		
Sale of goods and properties	1,117.2	919.5
Rendering of services	19.3	23.0
Total	1,136.5	942.5

Segmental information, relating to the Group's business and geographic interests, follows. Analysis by business segment is the Group's primary reporting format as this is more relevant to the Group when making operational and financial decisions.

By Principal Business Activity – 2006

	For the six months ended 30 June				
	Telecom-munications	Consumer Food Products	Property and Transportation	Head Office	2006 Total
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
Profit and Loss					
Segment revenue – turnover	–	1,104.7	31.8	–	1,136.5
Segment results	–	135.3	(8.1)	0.2	127.4
Net borrowing costs					(58.7)
Share of profits less losses of associated companies	68.9	(0.8)	0.1	–	68.2
Profit before taxation					136.9
Taxation					(39.6)
Profit for the period					97.3
Other Information					
Capital expenditure	–	19.6	3.9	1.7	25.2
Depreciation	–	28.5	3.0	–	31.5
Foreign exchange and derivative losses, net	–	–	–	5.1	5.1
Other non-cash expenses	–	1.0	9.4	1.4	11.8

By Principal Geographical Market – 2006

	For the six months ended 30 June			
	The Philippines	Indonesia	Hong Kong	2006 Total
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*
Segment revenue – turnover	31.8	1,104.7	–	1,136.5
Capital expenditure	3.9	19.6	1.7	25.2

By Principal Business Activity – 2005

	For the six months ended 30 June				
	Telecom-munications	Consumer Food Products	Property and Transportation	Head Office	2005 Total
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
Profit and Loss					
Segment revenue – turnover	–	911.6	30.9	–	942.5
Segment results	–	100.1	21.9	(27.5)	94.5
Net borrowing costs					(59.2)
Share of profits less losses of associated companies	71.0	–	0.1	–	71.1
Profit before taxation					106.4
Taxation					(20.4)
Profit for the period					86.0
Other Information					
Capital expenditure	–	21.3	2.3	–	23.6
Depreciation	–	31.1	1.6	–	32.7
Foreign exchange and derivative losses, net	–	13.9	–	10.4	24.3
Other non-cash expenses	–	1.1	0.5	3.4	5.0

By Principal Geographical Market – 2005

	For the six months ended 30 June		
	The Philippines	Indonesia	2005 Total
	US$ millions	*US$ millions*	*US$ millions*
Segment revenue – turnover	30.9	911.6	942.5
Capital expenditure	2.3	21.3	23.6

3. NET BORROWING COSTS

	For the six months ended 30 June	
	2006	2005
	US$ millions	*US$ millions*
Bank loans and other loans		
– wholly repayable within five years	64.1	64.0
– not wholly repayable within five years	4.2	0.6
Total Borrowing Costs	68.3	64.6
Less interest income	(9.6)	(5.4)
Net Borrowing Costs	58.7	59.2

4. PROFIT BEFORE TAXATION

	For the six months ended 30 June 2006 *US$ millions*	2005 *US$ millions*
Profit Before Taxation is Stated After (Charging)/Crediting		
Cost of inventories sold	(669.8)	(552.7)
Employee remuneration	(109.7)	(91.0)
Depreciation *(Note 10)*	(31.5)	(32.7)
Cost of services rendered	(18.9)	(21.2)
Impairment of an associated company	(5.0)	–
Impairment of property and equipment *(Note 10)*	(2.7)	–
Doubtful debt provisions (included in distribution costs)	(2.1)	(1.6)
Loss on changes in fair value of non-current assets held for sale	(0.6)	–
Gain on changes in fair value of plantations	30.0	8.5
Gain on dilution of interest in an associated company	10.2	3.0
Gain on divestment of interest in an associated company	7.1	–
Gain on sale of property and equipment	0.7	–
Dividend income from financial assets at fair value through profit or loss	0.5	–
Foreign exchange and derivative gains/(losses), net *(Note 6)*	0.4	(24.3)
Realized gain on sale of available-for-sale assets	0.2	–
Dividend income from available-for-sale assets	–	1.3

5. TAXATION

No Hong Kong profits tax (2005: Nil) has been provided as the Group had no estimated assessable profits (2005: Nil) in Hong Kong for the period. Taxation on assessable profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which the Company's subsidiary companies operate.

	For the six months ended 30 June 2006 *US$ millions*	2005 *US$ millions*
Subsidiary Companies – Overseas		
Current taxation	20.0	15.5
Deferred taxation	19.6	4.9
Total	39.6	20.4

Included within share of profits less losses of associated companies is taxation of US$13.7 million (2005: US$24.2 million) and which is analyzed as follows.

	For the six months ended 30 June 2006 *US$ millions*	2005 *US$ millions*
Associated Companies – Overseas		
Current taxation	21.0	21.1
Deferred taxation	(7.3)	3.1
Total	13.7	24.2

6. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Profit attributable to equity holders of the parent includes US$3.7 million (2005: US$7.7 million) net foreign exchange and derivative losses which comprise US$0.4 million (2005: US$7.7 million) losses on changes in the fair values of derivatives and the translation of the unhedged foreign currency denominated borrowings, and a US$3.3 million (2005: Nil) loss on changes in the fair value of 1.1 per cent PLDT shares acquired by the Group in 2006 and designated as financial assets at fair value through profit or loss, and US$6.9 million (2005: US$14.6 million) net non-recurring gains.

Analysis of Foreign Exchange and Derivative Losses

	For the six months ended 30 June	
	2006	**2005**
	US$ millions	*US$ millions*
Foreign exchange and derivative gains /(losses)		
– Subsidiary companies	0.4	(24.3)
– Associated companies	(0.9)	11.4
Subtotal	(0.5)	(12.9)
Attributable to taxation and minority interest	(3.2)	5.2
Total	(3.7)	(7.7)

The non-recurring gains of US$6.9 million for 2006 mainly comprise a gain on dilution upon the conversion of PLDT's convertible preference shares of US$10.2 million and a gain on divestment of the Group's interest in PLDT of US$7.1 million on settlement of certain Head Office's Exchangeable Notes with PLDT shares. 2005's non-recurring gains of US$14.6 million mainly comprised goodwill compensation received by Indofood in connection with the establishment of a joint venture entity of US$5.0 million, a gain on dilution of the Group's interest in PLDT of US$3.0 million and Metro Pacific's adjustments made to amounts owed to Pacific Plaza Towers contractor and others.

7. ORDINARY SHARE DIVIDEND

At a meeting held on 7 September 2006, the Directors declared an interim cash dividend of U.S. 0.13 cent (2005: U.S. 0.13 cent) per ordinary share totaling US$4.1 million (2005: US$4.1 million).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the parent of US$72.2 million (2005: US$60.8 million), and the weighted average number of 3,189.0 million (2005: 3,186.0 million) ordinary shares in issue during the period.

The calculation of diluted earnings per share amount is based on: (i) profit for the period attributable to equity holders of the parent of US$72.2 million (2005: US$60.8 million) reduced by US$0.2 million (2005: US$4.5 million) in respect of the dilutive impact from the full conversion of convertible preference shares and share options issued by its associate PLDT, and (ii) a share base equal to the aggregate of the weighted average number of 3,189.0 million (2005: 3,186.0 million) ordinary shares in issue during the period (as used in the basic earnings per share calculation) and the weighted average of 46.9 million (2005: 40.4 million) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options of the Company during the period.

The impact upon full conversion of Head Office's Exchangeable Notes has not been taken into account in calculating the earnings per share because its anti-dilutive effect on the basic earnings per share for the period would actually increase the earnings per share.

9. SUBSIDIARY COMPANIES

(a) Details of principal subsidiary companies which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on pages 49 to 50.

(b) Metro Pacific group contributes to the Group's property and transportation business segment (refer to Note 2). Since the fourth quarter of 2001, it has been unable to meet its debt repayment obligations. Metro Pacific's ability to continue as a going concern is dependent on a number of factors, which includes its ability to settle or restructure its debt obligations, the availability of refinancing of debts and the success of its plan to revitalize its business and generate sufficient cash flows to ensure sustained and profitable operations. Metro Pacific had successfully reduced its parent company's debt obligations to Pesos 566 million (US$10.7 million) at 30 June 2006 from Pesos 11.7 billion (US$220.3 million) at 31 December 2001 when the debt reduction program was commenced.

Negros Navigation Co., Inc. (Nenaco), a 99.0 per cent-owned subsidiary company of Metro Pacific, obtained approval for its corporate rehabilitation plan from the Manila Regional Trial Court on 4 October 2004. With the approval of the corporate rehabilitation plan, Nenaco will focus on enhancing its profitability by strengthening its marketing efforts and operational efficiencies. Metro Pacific is reviewing a number of strategic options with respect to its investment in Nenaco.

10. PROPERTY AND EQUIPMENT

The movements in property and equipment are set out below.

	2006	**2005**
	US$ millions	*US$ millions*
At 1 January	622.9	647.4
Exchange translation	32.6	(29.0)
Additions	25.2	23.6
Disposals	(1.1)	(2.0)
Acquisition of subsidiary companies *(Note 17(b))*	94.8	2.0
Depreciation *(Note 4)*	(31.5)	(32.7)
Impairment *(Note 4)*	(2.7)	–
Reclassifications	–	17.5
At 30 June	740.2	626.8

11. ASSOCIATED COMPANIES

	At 30 June 2006	**At 31 December 2005**
	US$ millions	*US$ millions*
PLDT	390.6	350.4
Level Up	15.0	14.0
Metro Pacific's associated companies	10.3	13.8
Others	2.9	3.5
Total	418.8	381.7

Details of principal associated companies which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on pages 49 to 50.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The amount represents the fair value, determined based on a quoted market price, of 1.1 per cent interest in PLDT acquired by the Group during the period and designated as financial assets at fair value through profit or loss to partially offset against the exposure arising from changes in the fair value of the option element embedded in Head Office's Exchangeable Notes. The Directors consider that such a designation is appropriate since the change in value of such assets will have a strong correlation with any change in the fair value of the option embedded in the Exchangeable Notes.

13. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND PREPAYMENTS

Included in accounts receivable, other receivables and prepayments are trade receivables of US$172.8 million (31 December 2005: US$173.3 million), with an ageing profile as below.

	At 30 June 2006 *US$ millions*	**At 31 December 2005** *US$ millions*
0 to 30 days	140.5	148.5
31 to 60 days	9.6	8.8
61 to 90 days	5.3	6.0
Over 90 days	17.4	10.0
Total	172.8	173.3

Indofood allows export customers 60 days of credit and local customers an average of 30 days of credit. Metro Pacific/Metro Pacific Investments Corporation (MPIC) collects contract receivables related to property sales by installments over periods ranging between one to five years.

14. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

Included in accounts payable, other payables and accruals are trade payables of US$163.9 million (31 December 2005: US$172.7 million), with an ageing profile as below.

	At 30 June 2006 *US$ millions*	**At 31 December 2005** *US$ millions*
0 to 30 days	146.0	160.8
31 to 60 days	12.8	1.7
61 to 90 days	1.1	1.3
Over 90 days	4.0	8.9
Total	163.9	172.7

15. DEFERRED LIABILITIES AND PROVISIONS

	Pension	Deferred income	Long-term payables	Others	2006 Total	2005 Total
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
At 1 January	51.2	26.0	14.5	16.3	108.0	125.1
Exchange translation	2.6	–	0.3	0.1	3.0	(2.0)
Additions	9.0	0.1	2.1	0.6	11.8	15.0
Acquisition of subsidiary companies *(Note 17(b))*	0.2	–	–	–	0.2	–
Payment and utilization	(0.6)	(0.7)	(3.9)	(13.3)	(18.5)	(13.7)
Reclassification	–	–	–	–	–	(11.1)
At 30 June	62.4	25.4	13.0	3.7	104.5	113.3
Presented as:						
Current Portion	1.1	1.3	2.3	1.2	5.9	16.6
Non-current Portion	61.3	24.1	10.7	2.5	98.6	96.7
Total	62.4	25.4	13.0	3.7	104.5	113.3

Pension relates to accrued liabilities in relation to retirement schemes and long service payments.

Deferred income relates to upfront service fee received by Asia Link B.V. (ALBV), a wholly-owned subsidiary company of the Company, from Smart Communications, Inc. (Smart), a wholly-owned subsidiary company of PLDT, in respect of their arrangement for a service agreement (Note 20(e)) and the unrealized gross profit arising on property sales with installment collections.

Long-term payables relate to Metro Pacific/MPIC's estimated liabilities for property development and Indofood's accrued costs for dismantlement, removal or restoration in relation to property and equipment.

Others mainly relates to provisions for warranty claims.

16. DERIVATIVE LIABILITY

Derivative liability represents the fair value of the option embedded in the Exchangeable Notes issued by First Pacific Finance Limited, a wholly-owned subsidiary company of the Company. Details regarding the issue of the Exchangeable Notes is set out on page 100 of First Pacific's 2005 Annual Report. The fair value of the option liability was remeasured to US$39.2 million (31 December 2005: US$39.3 million) on a mark-to-market basis at 30 June 2006, reflecting primarily the change in PLDT share price.

17. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of Assets Designated as Financial Assets at Fair Value through Profit or Loss

The cash outflow of US$66.5 million (2005: Nil) relates principally to the Group's acquisition of 1.1 per cent interest in PLDT and designated as financial assets at fair value through profit or loss.

(b) Acquisition of Subsidiary Companies

	Indofood's acquisition of Pacsari Pte Ltd (PPL) *US$ millions*	Indofood's acquisition of PT Sarana Inti Pratama (SAIN) and its subsidiary companies *US$ millions*	Others *US$ millions*	Total *US$ millions*
Consideration				
Cash and cash equivalents	40.5	1.5	–	42.0
Accounts receivable, other receivables and prepayments (Current)[(i)]	–	14.9	0.6	15.5
Other non-current assets[(ii)]	–	–	5.2	5.2
Total	40.5	16.4	5.8	62.7
Net Assets				
Property and equipment *(Note 10)*	87.9	1.5	5.4	94.8
Plantations	–	26.4	–	26.4
Accounts receivable, other receivables and prepayments (Non-current)	–	2.9	–	2.9
Prepaid land premiums	–	1.9	–	1.9
Deferred tax assets	–	1.0	–	1.0
Other non-current assets	–	4.8	1.2	6.0
Cash and cash equivalents	9.1	0.6	0.6	10.3
Accounts receivable, other receivables and prepayments (Current)	0.2	0.4	1.0	1.6
Inventories	0.1	0.3	0.2	0.6
Accounts payable, other payables and accruals	(5.4)	(3.7)	(0.7)	(9.8)
Short-term borrowings	(15.1)	–	–	(15.1)
Provision for taxation	–	(0.1)	–	(0.1)
Long-term borrowings	–	(4.2)	–	(4.2)
Deferred liabilities and provisions *(Note 15)*	–	(0.1)	(0.1)	(0.2)
Deferred tax liabilities	(15.5)	(8.1)	(1.2)	(24.8)
Minority interest	(27.9)	(7.4)	(0.6)	(35.9)
Total Net Assets Acquired at Fair Value	33.4	16.2	5.8	55.4
Goodwill	7.1	0.2	–	7.3
Net (Outflow)/Inflow of Cash and Cash Equivalents Per Consolidated Cash Flow Statement	(31.4)	(0.9)	0.6	(31.7)

(i) Mainly represents deposit paid for the acquisition of SAIN's convertible bonds made by PT Salim Ivomas Pratama (SIMP), a 80 per cent-owned subsidiary company of Indofood, in December 2005.

(ii) Represents Indofood's investment in PT Tahta Bahtera's convertible bonds in November 2005.

In June 2006, Indofood acquired 55.0 per cent interest in PPL for US$40.5 million and SIMP completed the acquisition of 70.0 per cent interest in SAIN for US$16.4 million. PPL is engaged in shipping operations and SAIN is engaged in the operations of oil palm breeding, research management and plantations in Indonesia.

Since the date of acquisitions, the above acquired companies recorded profit for the period of US$0.1 million, which were included in the profit and loss of the Group. If all of the above acquisitions had taken place on 1 January 2006, the turnover and profit for the period of the Group for the six months ended 30 June 2006 would be US$1,141.2 million and US$99.1 million, respectively. The subsidiary companies acquired during the period had minimal net cash outflows from operating and investing activities and no cashflow in respect of financing activities during the period.

(c) Increased Investment in an Associated Company

The cash outflow of US$6.1 million (2005: US$28.2 million) relates to the Group's increased investment in PLDT. 2006's purchase was principally made in accordance with the terms of Head Office's Exchangeable Notes.

(d) Restricted Cash

At 30 June 2006, the Group had US$4.5 million (31 December 2005: US$4.7 million) of cash which was restricted as to use. The full amount has been released in July 2006.

(e) Major Non-cash Transaction

During the period, the Group settled US$7.4 million of Head Office's Exchangeable Notes through the transfer of 0.1 per cent PLDT shares.

18. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital Expenditure

	At 30 June 2006 *US$ millions*	**At 31 December 2005** *US$ millions*
Commitments in respect of subsidiary companies:		
Authorized, but not contracted for	7.9	15.1
Contracted, but not provided for	5.8	7.5
Total	13.7	22.6

Capital expenditure commitments principally relate to Indofood's purchase of property, machinery and equipment.

(b) Contingent Liabilities

At 30 June 2006, neither the Group nor the Company had any significant contingent liabilities (31 December 2005: Nil).

19. SHARE OPTIONS

Particulars of the share options of the Company and its subsidiary companies granted to the Directors and senior executives of the Company and its subsidiary companies at 30 June 2006 are set out below.

(a) Particulars of the Company's Share Option Scheme

Company	Share options held at 1 January 2006	Share options granted during the period	Share options exercised during the period	Share options held at 30 June 2006	Share option exercise price (HK$)	Market price at date of grant (HK$)	Market price during the period of exercise (HK$)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors											
Manuel V. Pangilinan	31,800,000	–	–	31,800,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
Edward A. Tortorici	31,800,000	–	–	31,800,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
Robert C. Nicholson	24,500,000	–	–	24,500,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
Non-executive Directors											
Ambassador Albert F. del Rosario	2,840,000	–	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
Benny S. Santoso	2,840,000	–	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
Independent Non-executive Directors											
Graham L. Pickles	2,840,000	–	(482,000)	2,358,000	1.76	1.76	3.66	1 June 2004	June 2005	June 2005	May 2014
Edward K.Y. Chen, GBS, CBE, JP	2,840,000	–	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
Senior Executives	32,286,000	–	–	32,286,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	–	4,500,000	–	4,500,000	3.275	3.25	–	7 June 2006	December 2010	June 2007	June 2016
Total	131,746,000	4,500,000	(482,000)	135,764,000							

(b) Particulars of Metro Pacific's Share Option Scheme

Metro Pacific	Share options held at 1 January 2006	Share options canceled during the period	Share options held at 30 June 2006	Share option exercise price (Peso)	Market price at date of grant (Peso)	Grant date	Exercisable from	Exercisable until
Senior Executives	315,684	(267,649)	48,035	3.46	3.57	1 August 1997	August 1997	August 2007

Other than as disclosed above, at no time during the period was the Company or any of its subsidiary companies a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or minor children had any right to subscribe for securities of the Company, or had exercised any such right during the period.

20. RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the period are disclosed as follows:

(a) The Company and certain of its group companies signed a Cooperation Agreement on 31 January 2006 with PLDT, NTT DoCoMo, Inc. and NTT Communications, Inc. which governs the shareholding arrangements and other business arrangements, including the rollout and development of 3G services in the Philippines, between the parties.

(b) In April 2006, a wholly-owned subsidiary company of the Company converted its Pesos 450 million (US$8.6 million) investment in Metro Pacific's preferred shares into common shares at Peso 1 per share, which increased the Group's economic interest in Metro Pacific from 75.5 per cent to 76.1 per cent.

(c) In April 2006, MPIC acquired Metro Pacific's entire 51.0 per cent interest in Landco, Inc. (Landco) for a consideration of Pesos 667.7 million (US$12.8 million) and a Pesos 137.7 million (US$2.6 million) receivable from Landco at its face value. In May 2006, MPIC converted the said receivable from Landco into new shares in Landco, with a pro-rated contribution of Pesos 132.2 million (US$2.5 million) from AB Holdings, Inc., the 49 per cent shareholder of Landco.

(d) In May 2006, Metro Pacific repaid its outstanding liabilities owed to certain wholly-owned subsidiary companies of the Company totaling Pesos 854 million (US$16.4 million).

(e) ALBV has a technical assistance agreement with Smart for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2004, subject to renewal upon mutual agreement between the parties. The agreement provides for quarterly payments of technical service fees equivalent to one per cent (2005: one per cent) of the consolidated net revenue of Smart.

ALBV also has an existing service agreement with Smart for a period of 25 years starting 1 January 1999, which shall automatically expire unless renewed by mutual agreement of both parties. Under the agreement, ALBV provides advice and assistance to Smart in sourcing capital equipment and negotiating with international suppliers, arranging international financing and other services therein consistent with and for the furtherance of the objectives of the services. Service agreement fees were paid for the whole 25-year period.

Total fees under these arrangements amounted to Pesos 299 million (US$5.7 million) for the period ended 30 June 2006 (2005: Pesos 278 million or US$5.1 million). At 30 June 2006, ALBV had outstanding receivable under the technical assistance agreement amounting to Pesos 30 million (US$0.6 million) (31 December 2005: Pesos 194 million or US$3.7 million).

(f) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated and affiliated companies, the majority of which are related to the Salim Family either through direct and/or common share ownership and common management. Mr. Anthoni Salim is the Chairman and a substantial shareholder of the Company and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows.

Nature of Transactions

	For the six months ended 30 June	
	2006	**2005**
	US$ millions	*US$ millions*
Profit and Loss Items		
Sales of finished goods		
– to associated companies	24.7	17.1
– to affiliated companies	21.0	14.7
Purchases of raw materials		
– from associated companies	18.3	12.5
– from affiliated companies	1.8	3.4
Insurance expenses		
– to affiliated companies	1.6	–
Management and technical services fee income and royalty income		
– from associated companies	0.3	0.2
– from affiliated companies	0.5	1.3
Rental expenses		
– to affiliated companies	0.6	0.7
Transportation and pump services expenses		
– to affiliated companies	0.2	0.4

Approximately four per cent (2005: four per cent) of Indofood's sales and two per cent (2005: three per cent) of its purchases were transacted with these related parties.

Nature of Balances

	At 30 June 2006	At 31 December 2005
	US$ millions	*US$ millions*
Balance Sheet Items		
Accounts receivable – trade		
– from associated companies	5.2	0.1
– from affiliated companies	5.7	4.8
Accounts receivable – non-trade		
– from associated companies	–	0.1
– from affiliated companies	7.3	5.9
Accounts payable – trade		
– to associated companies	5.2	6.4
– to affiliated companies	0.9	1.2
Accounts payable – non-trade		
– to affiliated companies	0.8	0.6

Certain of the above Indofood's related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and their details are disclosed in the Corporate Governance Report on page 42 of First Pacific's 2006 interim report.

21. SUBSEQUENT EVENTS

(a) In July 2006, the Group has redeemed in full its outstanding secured bonds of US$108 million at par upon their maturity. The redemption was funded by internal cash resources. Following the full redemption of the bonds, the security interest over the Group's shareholding in Indofood was released.

(b) On 16 August 2006, Indofood completed a merger between its wholly-owned edible oils and fats subsidiary companies and SIMP, through the issuance of new shares by SIMP to Indofood in exchange for the full ownership of the edible oils and fats businesses. As a result, Indofood's effective interest in the merged SIMP increased to approximately 84 per cent from 80 per cent.

(c) On 16 August 2006, SIMP entered into a conditional sale and purchase agreement with Rascal Holdings Limited, a company owned by the Chairman of the Company, in relation to the purchase of a 60 per cent interest in several plantation companies owning approximately 85,500 hectares of plantation land for a consideration of Rupiah 125 billion (US$13.7 million). Completion of the acquisition is conditional upon fulfillment of various conditions precedent.

(d) On 23 August 2006, Indofood entered into a conditional sale and purchase agreement with ISG Asia Limited (ISG), a company listed on the Singapore Exchange Securities Trading Limited (SGX – ST) Dealing and Automated Quotation System, in relation to the proposed listing of Indofood's oil palm plantations and edible oils and fats businesses through a reverse takeover of ISG. The transaction is valued at 392.7 million Singapore Dollars (US$248.5 million) with Indofood receiving 9.982 billion new ISG shares after injecting its oil palm plantations and edible oils and fats businesses.

Upon completion of the transaction, Indofood will become the majority shareholder of ISG owning over 98 per cent of the enlarged issued share capital of ISG. To comply with SGX – ST rules on shareholding spread and distribution requirements, it is intended that a placement of new and/or existing shares of ISG will be carried out.

The transaction is subject to the completion of due diligence and approvals of shareholders of the Company, Indofood and ISG as well as the regulatory authorities in Hong Kong, Indonesia and Singapore.

3. SUMMARY OF PRINCIPAL INVESTMENTS AS AT 30 JUNE 2006

Philippine Long Distance Telephone Company

PLDT is the leading telecommunications service provider in the Philippines. It has common shares listed on the Philippine Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. It has one of the largest market capitalizations among Philippine listed companies. Through its three principal business groups, PLDT offers a wide range of telecommunications services: Wireless (principally through wholly-owned subsidiary company Smart Communications, Inc.); Fixed Line (principally through PLDT); and Information and Communications Technology (principally through wholly-owned subsidiary company ePLDT). PLDT has developed the Philippines' most extensive fiber optic backbone, cellular, fixed line and satellite networks.

Sector	:	Telecommunications
Place of incorporation/business area	:	The Philippines
Issued number of shares	:	182.8 million
Particular of issued shares held	:	Common shares of Pesos 5 par value
Economic interest/voting interest	:	24.6 per cent/31.2 per cent

Further information on PLDT can be found at www.pldt.com.ph

PT Indofood Sukses Makmur Tbk

Indofood is the premier processed-foods company in Indonesia. It is based in Jakarta, and is listed on the Jakarta and Surabaya Stock Exchanges. Through its four major business groups, Indofood offers a wide range of food products: Consumer Branded Products (Noodles, Nutrition and Special Foods, Snack Foods and Food Seasonings), Bogasari (flour and pasta), Edible Oils and Fats (Plantations, Cooking Oils, Margarine and Shortening) and Distribution. Indofood is considered as one of the world's largest instant noodles manufacturer by volume, and the largest flour miller in Indonesia. Indofood's flourmill in Jakarta is one of the largest in the world in terms of production capacity in one location. It also has an extensive distribution network in the country.

Sector	:	Consumer Food Products
Place of incorporation/business area	:	Indonesia
Issued number of shares	:	9.4 billion
Particular of issued shares held	:	Shares of Rupiah 100 par value
Economic interest/voting interest	:	51.5 per cent

Further information on Indofood can be found at www.indofood.co.id

Metro Pacific Corporation

Metro Pacific is a Manila, Philippines-based holding company listed on the Philippine Stock Exchange. It is currently undergoing a program of reorganization and recapitalization which is expected to be completed before the end of 2006.

Sector	:	Property and Transportation
Place of incorporation/business area	:	The Philippines
Issued number of shares	:	19.1 billion
Particular of issued shares held	:	Common shares of Peso 1 par value
Economic interest/voting interest	:	76.1 per cent

Further information on Metro Pacific can be found at www.metropacific.com

Metro Pacific Investments Corporation

MPIC is a Philippines-based investment holding and management company which is formed to undertake a comprehensive reorganization and recapitalization plan with Metro Pacific, launched in early 2006. MPIC is expected to replace Metro Pacific as a newly-listed entity on the Philippine Stock Exchange before the end of 2006. MPIC's initial business activity will be focused on its rapidly growing real estate subsidiary, Landco Pacific Corporation. However, its business activities are intended to expand into high-growth sectors of the Philippine economy, such as infrastructure.

Sector	:	Property
Place of incorporation/business area	:	The Philippines
Issued number of shares	:	1,150.1 million
Particular of issued shares held	:	Common shares of Peso 1 par value
Economic interest/voting interest	:	100 per cent

Level Up! International Holdings Pte Ltd

Level Up is the pioneer and leading online game publisher in the Philippines, Brazil and India. Online games are a rapidly growing segment of the global video game industry, and Level Up focuses on online games in emerging markets.

Sector	:	Online games
Place of incorporation/business area	:	Singapore/The Philippines, Brazil and India
Issued number of shares	:	413,869
Particular of issued shares held	:	Ordinary shares of US$8 par value
Economic interest/voting interest	:	25.0 per cent

Further information on Level Up can be found at www.levelupgames.com

4. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE ONE YEAR PERIODS ENDED 31 DECEMBER 2005 AND 31 DECEMBER 2004

Set out below are the audited consolidated financial statements of the Company for the one year periods ended 31 December 2005 and 31 December 2004, respectively, together with the notes thereon extracted from the annual report of the Company for the year ended 31 December 2005:

Consolidated Profit and Loss Statement

		For the year ended 31 December	
		2005	**2004**
	Notes		(Restated)[(i)]
		US$ millions	*US$ millions*
Turnover	*4*	1,986.1	2,054.6
Cost of sales		(1,511.7)	(1,536.1)
Gross Profit		474.4	518.5
(Loss)/gain on dilutions and divestments, net		(6.3)	8.0
Distribution costs		(175.0)	(172.2)
Administrative expenses		(128.3)	(126.7)
Other operating expenses, net		(29.8)	(20.3)
Net borrowing costs	*5*	(107.3)	(111.9)
Share of profits less losses of associated companies		137.7	85.9
Profit Before Taxation	*6*	165.4	181.3
Taxation	*7*	(26.6)	(31.9)
Profit for the Year from Continuing Operations		138.8	149.4
Profit for the year from a discontinued operation	*8*	–	18.8
Profit for the Year		138.8	168.2
Attributable to:			
Equity holders of the parent	*9*	103.0	123.9
Minority interest		35.8	44.3
		138.8	168.2
Ordinary Share Dividends	*10*		
Interim – U.S. 0.13 cent (2004: Nil) per share		4.1	–
Proposed final – U.S. 0.26 cent (2004: Nil) per share		8.2	–
Total		12.3	–

	Notes	For the year ended 31 December 2005 U.S. cents	2004 (Restated)[i] U.S. cents
Earnings per Share Attributable to Equity Holders of the Parent	*11*		
Basic			
– For profit from continuing operations		3.23	3.30
– For profit from a discontinued operation		–	0.59
– For profit for the year		3.23	3.89
Diluted			
– For profit from continuing operations		3.17	N/A
– For profit from a discontinued operation		–	N/A
– For profit for the year		3.17	N/A

N/A: Not applicable

(i) Refer to Note 2(B).

Consolidated Balance Sheet

	Notes	At 31 December 2005 US$ millions	2004 (Restated)(i) US$ millions
Non-current Assets			
Property and equipment	*12*	622.9	647.4
Plantations	*13*	169.0	147.4
Associated companies	*15*	381.7	168.9
Accounts receivable, other receivables and prepayments	*16*	11.7	9.2
Goodwill	*17*	32.7	36.5
Prepaid land premiums	*18*	34.5	41.0
Available-for-sale assets/long-term investments	*19*	2.7	11.5
Deferred tax assets	*20*	15.4	5.8
Restricted cash	*33(G)*	–	4.7
Other non-current assets	*21*	130.8	242.4
		1,401.4	1,314.8
Current Assets			
Cash and cash equivalents	*22*	296.0	186.6
Restricted cash	*33(G)*	4.7	4.5
Available-for-sale assets/short-term investments	*19*	52.4	21.4
Accounts receivable, other receivables and prepayments	*16*	286.7	360.0
Inventories	*23*	303.0	281.4
Non-current assets held for sale	*24*	2.9	–
		945.7	853.9
Current Liabilities			
Accounts payable, other payables and accruals	*25*	278.6	264.3
Short-term borrowings	*26*	345.0	288.9
Provision for taxation	*27*	11.2	26.2
Current portion of deferred liabilities and provisions	*28*	15.3	18.1
		650.1	597.5
Net Current Assets		295.6	256.4
Total Assets Less Current Liabilities		1,697.0	1,571.2

		At 31 December	
		2005	2004
	Notes		(Restated)[i]
		US$ millions	*US$ millions*
Equity			
Issued share capital	*29*	31.9	31.9
Other reserves	*30*	927.9	902.8
Accumulated losses		(577.0)	(707.3)
Equity attributable to equity holders of the parent		382.8	227.4
Minority interest	*31*	323.9	363.7
Total Equity		706.7	591.1
Non-current Liabilities			
Long-term borrowings	*26*	744.2	761.2
Deferred liabilities and provisions	*28*	92.7	107.1
Deferred tax liabilities	*20*	114.1	111.8
Derivative liability	*32*	39.3	–
		990.3	980.1
		1,697.0	1,571.2

(i) Refer to Note 2(B).

Company Balance Sheet

	Notes	At 31 December 2005 US$ millions	2004 (Restated)[i] US$ millions
Non-current Assets			
Subsidiary companies	*14*	746.8	694.2
Amounts due from subsidiary companies	*14(A)*	1,534.8	1,169.9
		2,281.6	1,864.1
Current Assets			
Cash and cash equivalents	*22*	189.2	27.0
Other receivables and prepayments		0.4	–
		189.6	27.0
Current Liabilities			
Payables and accruals		5.3	8.7
Net Current Assets		184.3	18.3
Total Assets Less Current Liabilities		2,465.9	1,882.4
Equity			
Issued share capital	*29*	31.9	31.9
Other reserves		1,142.2	1,136.4
Retained profits/(accumulated losses)		245.1	(101.6)
Equity attributable to equity holders of the parent		1,419.2	1,066.7
Non-current Liabilities			
Amounts due to subsidiary companies	*14(B)*	1,046.7	815.7
		1,046.7	815.7
		2,465.9	1,882.4

(i) Refer to Note 2(B).

Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the parent									
	Issued share capital	Share premium	Share options issued	Unrealized gains on available-for-sale assets	Unrealized gains on cash flow hedges	Exchange reserve	Accumulated losses	Total	Minority interest	Total equity
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
Balance at 1 January 2004										
As previously reported	31.9	958.2	–	–	–	(3.4)	(935.6)	51.1	376.7	427.8
Prior year adjustments	–	–	–	–	–	–	(61.0)	(61.0)	(1.1)	(62.1)
As restated	31.9	958.2	–	–	–	(3.4)	(996.6)	(9.9)	375.6	365.7
Changes in equity for 2004:										
Exchange differences on translating foreign operations	–	–	–	–	–	(23.2)	–	(23.2)	(31.9)	(55.1)
Net expense recognized directly in equity	–	–	–	–	–	(23.2)	–	(23.2)	(31.9)	(55.1)
Net profit for the year, as restated	–	–	–	–	–	–	123.9	123.9	44.3	168.2
Total recognized income and expense for the year	–	–	–	–	–	(23.2)	123.9	100.7	12.4	113.1
Dilution and disposal of interests in subsidiary and associated companies	–	–	–	–	–	(33.2)	165.4	132.2	–	132.2
Acquisition of subsidiary companies	–	–	–	–	–	–	–	–	7.7	7.7
Change in attributable interests	–	–	–	–	–	–	–	–	(5.5)	(5.5)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(26.5)	(26.5)
Equity–settled share option arrangements	–	–	4.4	–	–	–	–	4.4	–	4.4
Balance at 31 December 2004 (Restated)[(i)]	31.9	958.2	4.4	–	–	(59.8)	(707.3)	227.4	363.7	591.1

	Equity attributable to equity holders of the parent									
	Issued share capital	Share premium	Share options issued	Unrealized gains on available-for-sale assets	Unrealized gains on cash flow hedges	Exchange reserve	Accumulated losses	Total	Minority interest	Total equity
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
Balance at 31 December 2004										
As previously reported	31.9	958.2	–	–	–	(59.8)	(635.7)	294.6	365.1	659.7
Prior year adjustments	–	–	4.4	–	–	–	(71.6)	(67.2)	(1.4)	(68.6)
As restated[(i)]	31.9	958.2	4.4	–	–	(59.8)	(707.3)	227.4	363.7	591.1
Adjustments for adoption of HKAS 39[(i)]	–	–	–	1.7	–	–	32.1	33.8	–	33.8
Balance at 1 January 2005, as restated	31.9	958.2	4.4	1.7	–	(59.8)	(675.2)	261.2	363.7	624.9
Changes in equity for 2005:										
Exchange differences on translating foreign operations	–	–	–	–	–	9.7	–	9.7	(17.8)	(8.1)
Unrealized gains on available–for–sale assets	–	–	–	4.7	–	–	–	4.7	3.7	8.4
Unrealized gains on cash flow hedges	–	–	–	–	4.0	–	–	4.0	–	4.0
Acquisition of minority interest	–	–	–	–	–	–	(0.7)	(0.7)	(23.3)	(24.0)
Net income and expense recognized directly in equity	–	–	–	4.7	4.0	9.7	(0.7)	17.7	(37.4)	(19.7)
Net profit for the year	–	–	–	–	–	–	103.0	103.0	35.8	138.8
Total recognized income and expense for the year	–	–	–	4.7	4.0	9.7	102.3	120.7	(1.6)	119.1
Dilution of interest in an associated company	–	–	–	–	–	(0.8)	–	(0.8)	–	(0.8)
Acquisition of subsidiary companies	–	–	–	–	–	–	–	–	0.8	0.8
Change in attributable interests	–	–	–	–	–	–	–	–	(9.2)	(9.2)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(29.8)	(29.8)
Issue of shares upon the exercise of share options	–	0.9	(0.3)	–	–	–	–	0.6	–	0.6
Equity–settled share option arrangements	–	–	5.2	–	–	–	–	5.2	–	5.2
Interim dividend	–	–	–	–	–	–	(4.1)	(4.1)	–	(4.1)
Balance at 31 December 2005	31.9	959.1	9.3	6.4	4.0	(50.9)	(577.0)	382.8	323.9	706.7

(i) Refer to Note 2(B).

Company Statement of Changes in Equity

	Issued share capital US$ millions	Share premium US$ millions	Share options issued US$ millions	Contributed surplus US$ millions	Retained profits/ (Accumulated losses) US$ millions	Total US$ millions
Balance at 1 January 2004	31.9	958.2	–	173.8	(231.9)	932.0
Net profit for the year, as restated	–	–	–	–	130.3	130.3
Equity–settled share option arrangements	–	–	4.4	–	–	4.4
Balance at 31 December 2004 (Restated)[i]	31.9	958.2	4.4	173.8	(101.6)	1,066.7
Balance at 31 December 2004						
As previously reported	31.9	958.2	–	173.8	(97.2)	1,066.7
Prior year adjustments	–	–	4.4	–	(4.4)	–
As restated[i]	31.9	958.2	4.4	173.8	(101.6)	1,066.7
Net profit for the year	–	–	–	–	350.8	350.8
Issue of shares upon the exercise of share options	–	0.9	(0.3)	–	–	0.6
Equity–settled share option arrangements	–	–	5.2	–	–	5.2
Interim dividend	–	–	–	–	(4.1)	(4.1)
Balance at 31 December 2005	31.9	959.1	9.3	173.8	245.1	1,419.2

(i) Refer to Note 2(B).

Consolidated Cash Flow Statement

	Notes	For the year ended 31 December 2005 US$ millions	2004 (Restated)[i] US$ millions
Profit Before Taxation			
From continuing operations		165.4	181.3
From a discontinued operation		–	18.8
Adjustments for:			
Interest expenses		115.2	126.6
Depreciation		62.6	53.1
Foreign exchange and derivative losses, net		42.0	33.4
Loss on dilution of interests in a subsidiary and an associated company		6.3	3.0
Equity–settled share option expense		5.2	4.4
Recognition of prepaid land premiums		4.2	2.2
Loss/(gain) on sale of property and equipment		0.7	(1.8)
Amortization of goodwill		–	1.5
Gain on disposal of a discontinued operation		–	(17.1)
Gain on divestments, net		–	(11.0)
Share of profits less losses of associated companies			
From continuing operations		(137.7)	(85.9)
From a discontinued operation		–	(1.7)
(Increase)/decrease in other non–current assets		(16.6)	24.5
Gain on changes in fair value of plantations		(12.3)	(1.7)
Interest income		(7.9)	(14.7)
Payments in respect of deferred liabilities and provisions		–	(17.5)
Dividend income from available–for–sale assets/investments		(1.0)	–
Others		(26.3)	(5.9)
Operating profit before working capital changes		199.8	291.5
Increase/(decrease) in accounts payable, other payables and accruals		49.0	(48.0)
Decrease in accounts receivable, other receivables and prepayments		18.8	29.6
Decrease in pledged deposits		–	1.9
Increase in inventories		(41.0)	(1.9)
Net cash generated from operations[ii]		226.6	273.1
Interest received		7.6	14.8
Interest paid		(101.6)	(120.8)
Tax paid		(42.4)	(41.5)
Net Cash Inflow from Operating Activities		90.2	125.6

	Notes	For the year ended 31 December 2005 US$ millions	2004 (Restated)[i] US$ millions
Proceeds from termination of derivative transactions		96.3	–
Dividend received from an associated company		38.9	–
Compensation received in connection with the establishment of a joint venture		13.3	–
Sale of property and equipment		7.1	7.9
Divestments of subsidiary companies		–	9.1
Increased investments in associated companies	*33(A)*	(57.3)	–
Purchase of property and equipment		(54.9)	(109.1)
(Acquisitions)/sale of available–for–sale assets/short–term investments		(20.4)	39.9
Acquisition of associated companies	*33(B)*	(17.6)	–
Deposits for acquisition and increased investments in subsidiary companies	*33(C)*	(14.9)	(39.1)
Acquisition of subsidiary companies	*33(D)*	(6.2)	(25.6)
Acquisition of convertible bonds	*33(E)*	(5.2)	–
Increased investments in subsidiary companies	*33(F)*	(4.9)	(16.9)
Loans (to)/repaid by associated companies		(1.4)	0.5
From continuing operations		(27.2)	(133.3)
From a discontinued operation		–	15.0
Net Cash Outflow from Investing Activities		(27.2)	(118.3)
Proceeds of new borrowings		601.0	255.9
Issue of shares upon the exercise of share options		0.6	–
Shares issued to minority shareholders by a subsidiary company		–	0.1
Borrowings repaid		(517.5)	(277.6)
Dividends paid to minority shareholders by subsidiary companies		(29.8)	(26.5)
Dividend paid to shareholders		(4.1)	–
Decrease in restricted cash		4.5	11.2
Net Cash Inflow/(Outflow) from Financing Activities		54.7	(36.9)
Net Increase/(Decrease) in Cash and Cash Equivalents		117.7	(29.6)
Cash and cash equivalents at 1 January		186.6	233.3
Exchange translation		(8.3)	(17.1)
Cash and Cash Equivalents at 31 December		296.0	186.6
Representing			
Cash and cash equivalents		296.0	186.6

(i) Refer to Note 2(B).

(ii) Changes in working capital are stated excluding movements due to acquisition and disposal of subsidiary companies.

Notes to the Financial Statements

1. CORPORATE INFORMATION

First Pacific Company Limited is a Hong Kong-based investment and management company with operations located in Southeast Asia. Its principal business interests relate to telecommunications, consumer food products and property and transportations.

The Group comprises the Company and its subsidiary companies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company's ordinary shares are listed on the Stock Exchange. Its shares are also available in the United States through ADRs.

2. BASIS OF PREPARATION, SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND CHANGES

(A) Basis of Preparation

The Financial Statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) (which also include Hong Kong Accounting Standards (HKASs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), Hong Kong Generally Accepted Accounting Principles (GAAP) and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. The Financial Statements have been prepared under the historical cost convention except for plantations, available-for-sale assets and derivative financial instruments which, as disclosed in the accounting policies below, are stated at fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell as further explained in Note 2 (E)(u). These Financial Statements are presented in United States (U.S.) dollars and rounded to the nearest million (US$ million) with one decimal place except when otherwise indicated.

(B) Impact of New and Revised HKFRSs

In line with the HKICPA's long-standing policy of working towards full convergence with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, in 2004, the HKICPA has issued a number of new and revised HKASs and HKFRSs (herein collectively referred to as the new HKFRSs) to replace, supplement or cover areas not yet addressed by the Statement of Standard Accounting Practices (SSAPs) applicable in Hong Kong up to 31 December 2004.

Accordingly, significant changes to Hong Kong GAAP had been implemented during 2005 as a consequence the new HKFRSs issued by the HKICPA, which became effective for accounting periods commencing on, or after, 1 January 2005. The principal changes to HK GAAP and the new HKFRSs which affect the Group and are adopted for the first time for the current year's Financial Statements are summarized as follows. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	"Presentation of Financial Statements"
HKAS 2	"Inventories"
HKAS 7	"Cash Flow Statements"
HKAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors"
HKAS 10	"Events after the Balance Sheet Date"
HKAS 11	"Construction Contracts"
HKAS 12	"Income Taxes"
HKAS 14	"Segment Reporting"
HKAS 16	"Property, Plant and Equipment"
HKAS 17	"Leases"
HKAS 18	"Revenue"
HKAS 19	"Employee Benefits"
HKAS 20	"Accounting for Government Grants and Disclosure of Government Assistance"
HKAS 21	"The Effects of Changes in Foreign Exchange Rates"
HKAS 23	"Borrowing Costs"
HKAS 24	"Related Party Disclosures"
HKAS 27	"Consolidated and Separate Financial Statements"
HKAS 28	"Investments in Associates"
HKAS 29	"Financial Reporting in Hyperinflationary Economies"
HKAS 31	"Interests in Joint Ventures"
HKAS 32	"Financial Instruments: Disclosure and Presentation"
HKAS 33	"Earnings per Share"
HKAS 36	"Impairment of Assets"
HKAS 37	"Provisions, Contingent Liabilities and Contingent Assets"
HKAS 38	"Intangible Assets"
HKAS 39	"Financial Instruments: Recognition and Measurement"
HKAS 39 Amendment	"Transition and Initial Recognition of Financial Assets and Financial Liabilities"
HKAS 40	"Investment Property"
HKAS 41	"Agriculture"
HKFRS 2	"Share-based Payment"
HKFRS 3	"Business Combinations"
HKFRS 5	"Non-current Assets Held for Sale and Discontinued Operations"

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 18, 19, 20, 21, 23, 24, 27, 28, 29, 31, 36, 37, 38, 40 and 41 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's consolidated Financial Statements. The impact of adopting the other HKFRSs is summarized as follows:

- HKAS 1 "Presentation of Financial Statements" provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying assets and liabilities as current or non-current; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the consolidated profit and loss statement; requires the presentation of share of results of associated companies on an after-tax basis in the consolidated profit and loss statement and specifies the disclosures about the key sources of estimates, uncertainties and the judgments management has made in the process of applying the entity's accounting policies. The standard also affects the presentation of minority interest on the face of the Group's consolidated profit and loss statement, balance sheet and statement of changes in equity and other disclosures. The adoption of HKAS 1 has resulted in changes in the presentation of the Group's consolidated profit and loss statement, balance sheet, statement of changes in equity and cash flow statement, but has had no effect on both the profit attributable to equity holders of the parent for the year ended 31 December 2004 and equity attributable to equity holders of the parent at 31 December 2004.

- HKAS 16 "Property, Plant and Equipment" provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. The standard also provides that the cost of an item of property, plant and equipment should include the costs of its dismantlement, removal or restoration – the obligation for which the Group incurs as a consequence of installing the item, or of using the item during a particular period for purposes other than to produce inventories during that period. The adoption of HKAS 16 has effectively reduced the profit attributable to equity holders of the parent for the year ended 31 December 2004 by US$0.6 million and reduced the equity attributable to equity holders of the parent at 31 December 2004 by US$2.1 million.

- HKAS 17 "Leases" prescribes the classification of interest in leasehold land as an operating lease if the title of the land is not passed to the Group by the end of the lease term. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently recognized as expenses on the straight-line basis over the lease term. The adoption of HKAS 17 has resulted in a reclassification of leasehold land from Property and equipment and Other non-current assets of US$23.3 million and US$17.7 million, respectively, to Prepaid land premiums in the Group's consolidated balance sheet at 31 December 2004. However, the adoption has had no effect on both the profit attributable to equity holders of the parent for the year ended 31 December 2004 and equity attributable to equity holders of the parent at 31 December 2004.

- HKAS 32 "Financial Instruments: Disclosure and Presentation" covers the disclosure and presentation of all financial instruments. This standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used, types of risk associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. This standard also requires financial instruments to be classified as liabilities or equity in accordance with their substance and not their legal form. HKAS 32 requires retrospective application. The adoption of HKAS 32 has effectively reduced the profit attributable to equity holders of the parent for the year ended 31 December 2004 by US$5.6 million and reducing the equity attributable to equity holders of the parent at 31 December 2004 by US$65.1 million.

- HKAS 33 "Earnings per Share" prescribes principles for the determination and presentation of earnings per share. It requires separate disclosure of basic and diluted earnings per share from continuing operations on the face of the consolidated profit and loss statement. The adoption of HKAS 33 has resulted in changes in the presentation of the Group's earnings per share on the face of the consolidated profit and loss statement.

- HKAS 39 "Financial Instruments: Recognition and Measurement" establishes the accounting and reporting standards for recognizing and measuring a company's financial assets and financial liabilities. This standard requires a financial asset or financial liability to be recognized initially at cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Subsequent to initial recognition, the company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Investments in unquoted equity securities are measured at cost less impairment provisions. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are measured at fair value.

HKAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Under this standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that are not designated and do not qualify as hedges are adjusted to fair value through profit and loss. If the derivative is designated and qualified as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through profit and loss, or recognized in equity until the hedged item is recognized in profit and loss.

The adoption of HKAS 39 has resulted in a change of the Group's accounting policy on the measurement of its various financial assets and liabilities from historical cost to either fair value or amortized cost based on the effective interest rate method. HKAS 39 generally does not permit a company to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. As a result, the Group remeasured its various financial assets and liabilities at 1 January 2005. The differences which arose from the remeasurement were adjusted to the Group's balance of accumulated losses at 1 January 2005 as required under the transitional provisions of the standard. The adjustments have effectively increased the equity attributable to equity holders of the parent at 1 January 2005 by US$33.8 million.

- HKFRS 2 "Share-based Payment" requires an entity to recognize expenses in a share-based payment transaction when it obtains the goods or as the services are rendered. The entity shall recognize a corresponding increase in equity if the goods or services were received in an equity-settled transaction, or shall recognize liability if the goods or services were acquired in a cash-settled transaction. Pursuant to the transitional provisions of HKFRS 2, expenses relating to share options granted after 7 November 2002 and not yet fully vested on 1 January 2005 should be accounted for on a retrospective basis. The adoption of HKFRS 2 has effectively reduced the profit attributable to equity holders of the parent for the year ended 31 December 2004 by US$4.4 million, but has no effect on the equity attributable to equity holders of the parent at 31 December 2004.

- HKFRS 3 "Business Combinations" requires all business combinations within its scope to be accounted for by applying the purchase method. In addition, this standard requires the acquirer to initially measure separately the identifiable assets, liabilities and contingent liabilities at their fair values, at acquisition date, irrespective of the extent of any minority interest.

  HKFRS 3 also requires goodwill in a business combination to be recognized by an acquirer as an asset from the acquisition date, initially measured as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Further, the amortization of goodwill acquired in a business combination is prohibited. Instead, goodwill is to be tested annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Goodwill that had been previously eliminated against reserves as a matter of accounting treatment will not be reinstated in the consolidated profit and loss statement upon disposal or impairment of the asset. The adoption of HKFRS 3 has resulted in the Group conducting an impairment review of its goodwill balance at least on an annual basis instead of amortizing its goodwill balance starting from 1 January 2005 and has had no effect on both the profit attributable to equity holders of the parent for the year ended 31 December 2004 and equity attributable to equity holders of the parent at 31 December 2004.

- HKFRS 5 "Non-current Assets Held-for-Sale and Discontinued Operations" requires an operation to be classified as discontinued when the criteria to be classified as held-for-sale have been met or the entity has disposed of the operation. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The adoption of HKFRS 5 has resulted in changes in the presentation of the Group's consolidated profit and loss statement and has had no effect on both the profit attributable to equity holders of the parent for the year ended 31 December 2004 and equity attributable to equity holders of the parent at 31 December 2004.

(C) Summary of the Impact of Changes in Accounting Policies

(a) Effect on the consolidated balance sheet at 1 January 2005 and 31 December 2005

Effect of new accounting policies	HKAS 1[i]	HKAS 16[i]	HKAS 17[i]	HKAS 32[i]	HKAS 39[ii]	HKFRS 2[i]	
Increase/(decrease)	Presentation	Dismantling costs for property and equipment	Prepaid land premiums	Interest accretion on convertible preferred shares	Remeasurement of financial assets and liabilities	Equity-settled share option arrangements	Total
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
At 1 January 2005							
Assets							
Property and equipment	–	6.3	(23.3)	–	–	–	(17.0)
Associated companies	–	(0.9)	–	(65.1)	32.6	–	(33.4)
Long-term receivables and prepayments	(269.2)	–	–	–	–	–	(269.2)
Accounts receivable, other receivables and prepayments (Non-current)	9.2	–	–	–	–	–	9.2
Prepaid land premiums	–	–	41.0	–	–	–	41.0
Available-for-sale assets/ long-term investments	11.5	–	–	–	–	–	11.5
Other non-current assets	260.0	–	(17.7)	–	(33.7)	–	208.6
Available-for-sale assets/ short-term investments	(11.5)	–	–	–	–	–	(11.5)
	–	5.4	–	(65.1)	(1.1)	–	(60.8)
Liabilities/Equity							
Long-term borrowings	–	–	–	–	(25.8)	–	(25.8)
Deferred liabilities and provisions	–	7.0	–	–	–	–	7.0
Deferred tax liabilities	–	1.9	–	–	(7.8)	–	(5.9)
Accounts payable, other payables and accruals	(18.1)	–	–	–	(1.0)	–	(19.1)
Short-term borrowings	–	–	–	–	(0.3)	–	(0.3)
Current portion of deferred liabilities and provisions	18.1	–	–	–	–	–	18.1
Share options issued	–	–	–	–	–	4.4	4.4
Unrealized gains on available-for-sale assets	–	–	–	–	1.7	–	1.7
Accumulated losses	–	(2.1)	–	(65.1)	32.1	(4.4)	(39.5)
Minority interest	–	(1.4)	–	–	–	–	(1.4)
	–	5.4	–	(65.1)	(1.1)	–	(60.8)

(i) Adjustments/presentation taken effect retrospectively.

(ii) Adjustments taken effect prospectively from 1 January 2005.

Effect of new accounting policies	HKAS 1	HKAS 16	HKAS 17	HKAS 32	HKAS 39	HKFRS 2	HKFRS 3	HKFRS 5	
Increase/(decrease)	Presentation	Dismantling costs for property and equipment	Prepaid land premiums	Interest accretion on convertible preferred shares	Remeasurement of financial assets and liabilities	Equity-settled share option arrangements	Discontinuation of amortization and reinstatement of goodwill	Vessels classified as held-for-sale	Total
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
At 31 December 2005									
Assets									
Property and equipment	–	4.8	(18.5)	–	–	–	–	(2.9)	(16.6)
Associated companies	–	(1.6)	–	(73.0)	28.3	–	27.5	–	(18.8)
Long-term receivables and prepayments	(160.7)	–	–	–	(0.8)	–	–	–	(161.5)
Accounts receivable, other receivables and prepayments (Non-current)	11.7	–	–	–	–	–	–	–	11.7
Goodwill	–	–	–	–	–	–	3.0	–	3.0
Prepaid land premiums	–	–	34.5	–	–	–	–	–	34.5
Other non-current assets	149.0	–	(16.0)	–	(2.2)	–	–	–	130.8
Non-current assets held for sale	–	–	–	–	–	–	–	2.9	2.9
	–	3.2	–	(73.0)	25.3	–	30.5	–	(14.0)
Liabilities/Equity									
Long-term borrowings	–	–	–	–	(39.8)	–	–	–	(39.8)
Deferred liabilities and provisions	–	6.7	–	–	–	–	–	–	6.7
Deferred tax liabilities	–	1.7	–	–	1.7	–	–	–	3.4
Derivative liability	–	–	–	–	39.3	–	–	–	39.3
Accounts payable, other payables and accruals	(15.3)	–	–	–	(1.0)	–	–	–	(16.3)
Current portion of deferred liabilities and provisions	15.3	–	–	–	–	–	–	–	15.3
Share premium	–	–	–	–	–	0.3	–	–	0.3
Share options issued	–	–	–	–	–	9.3	–	–	9.3
Unrealized gains on available-for-sale assets	–	–	–	–	6.4	–	–	–	6.4
Unrealized gains on cash flow hedges	–	–	–	–	4.0	–	–	–	4.0
Accumulated losses	–	(3.5)	–	(73.0)	4.3	(9.6)	29.5	–	(52.3)
Minority interest	–	(1.7)	–	–	10.4	–	1.0	–	9.7
	–	3.2	–	(73.0)	25.3	–	30.5	–	(14.0)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new accounting policies **Increase/(decrease)**	**HKAS 16** **Dismantling costs for property and equipment** *US$ millions*	**HKAS 32** **Interest accretion on convertible preferred shares** *US$ millions*	**HKAS 39** **Remeasurement of financial assets and liabilities** *US$ millions*	**HKFRS 2** **Equity-settled share option arrangements** *US$ millions*	**Total** *US$ millions*
At 1 January 2004					
Accumulated losses	(1.5)	(59.5)	–	–	(61.0)
Minority interest	(1.1)	–	–	–	(1.1)
Total equity	(2.6)	(59.5)	–	–	(62.1)
At 1 January 2005					
Share options issued	–	–	–	4.4	4.4
Unrealized gains on available-for-sale assets	–	–	1.7	–	1.7
Accumulated losses	(2.1)	(65.1)	32.1	(4.4)	(39.5)
Minority interest	(1.4)	–	–	–	(1.4)
Total equity	(3.5)	(65.1)	33.8	–	(34.8)

(c) Effect on the consolidated profit and loss statement for the years ended 31 December 2005 and 2004

Effect of new accounting policies For the year ended 31 December 2005	HKAS 1 Presentation *US$ millions*	HKAS 16 Dismantling costs for property and equipment *US$ millions*	HKAS 32 Interest accretion on convertible preferred shares *US$ millions*	HKAS 39 Remeasure-ment of financial assets and liabilities *US$ millions*	HKFRS 2 Equity-settled share option arrangements *US$ millions*	HKFRS 3 Discontinuation of goodwill amortization and reinstatement *US$ millions*	Total *US$ millions*
Increase in cost of sales	–	(1.2)	–	–	–	–	(1.2)
Decrease in loss on dilutions and divestments, net	–	–	–	–	–	26.8	26.8
(Increase)/decrease in administrative expenses	–	–	–	(9.3)	(5.2)	3.0	(11.5)
Decrease in other operating expenses, net	–	–	–	2.2	–	–	2.2
Decrease in net borrowing costs	–	–	–	3.3	–	–	3.3
(Decrease)/increase in share of profits less losses of associated companies	(19.2)	(1.0)	(11.7)	(12.3)	–	0.8	(43.4)
Decrease/(increase) in taxation	19.2	0.5	3.8	(5.1)	–	(0.1)	18.3
(Decrease)/increase in profit for the year	–	(1.7)	(7.9)	(21.2)	(5.2)	30.5	(5.5)
Attributable to:							
Equity holders of the parent	–	(1.4)	(7.9)	(27.8)	(5.2)	29.5	(12.8)
Minority interest	–	(0.3)	–	6.6	–	1.0	7.3
(Decrease)/increase in profit for the year	–	(1.7)	(7.9)	(21.2)	(5.2)	30.5	(5.5)
(Decrease)/Increase in Earnings per Share Attributable to Equity Holders of the Parent (U.S. cents)							
Basic	–	(0.04)	(0.25)	(0.87)	(0.16)	0.92	(0.40)
Diluted	–	(0.04)	(0.25)	(0.87)	(0.16)	0.92	(0.40)

Effect of new accounting policies For the year ended 31 December 2004	HKAS 1 Presentation *US$ millions*	HKAS 16 Dismantling costs for property and equipment *US$ millions*	HKAS 32 Interest accretion on convertible preferred shares *US$ millions*	HKFRS 2 Equity-settled share option arrangements *US$ millions*	HKFRS 5 Reclassification of a discontinued operation *US$ millions*	Total *US$ millions*
Decrease in gain on disposal of a discontinued operation, divestments and dilutions, net	–	–	–	–	(17.1)	(17.1)
Increase in administrative expenses	–	(0.8)	–	(4.4)	–	(5.2)
Decrease in share of profits less losses of associated companies	(22.4)	(0.4)	(8.2)	–	(1.7)	(32.7)
Decrease in taxation	22.4	0.4	2.6	–	–	25.4
Increase in profit from a discontinued operation	–	–	–	–	18.8	18.8
Decrease in profit for the year	–	(0.8)	(5.6)	(4.4)	–	(10.8)
Attributable to:						
Equity holders of the parent	–	(0.6)	(5.6)	(4.4)	–	(10.6)
Minority interest	–	(0.2)	–	–	–	(0.2)
Decrease in profit for the year	–	(0.8)	(5.6)	(4.4)	–	(10.8)
Decrease in Earnings per Share Attributable to Equity Holders of the Parent (U.S. cents)						
Basic	–	(0.02)	(0.17)	(0.14)	–	(0.33)
Diluted	N/A	N/A	N/A	N/A	N/A	N/A

N/A: Not applicable

(D) Impact of Issued But Not Yet Effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these Financial Statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	"Capital Disclosures"
HKAS 19 Amendment	"Actuarial Gains and Losses, Group Plans and Disclosures"
HKAS 39 Amendment	"Cash Flow Hedge Accounting of Forecast Intragroup Transactions"
HKAS 39 Amendment	"The Fair Value Option"
HKAS 39 and HKFRS 4 Amendments	"Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts"
HKFRSs 1 & 6 Amendments	"First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources"
HKFRS 6	"Exploration for and Evaluation of Mineral Resources"
HKFRS 7	"Financial Instruments: Disclosures"
HK International Financial Reporting Interpretations Committee (IFRIC)-Interpretations (Int) 4	"Determining whether an Arrangement contains a Lease"
HK(IFRIC)-Int 5	"Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
HK(IFRIC)-Int 6	"Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"
HK(IFRIC)-Int 7	"Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics"

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 39 Amendment regarding the fair value option restricts the designation of any financial asset or financial liability as measured at fair value through profit and loss, unless certain conditions can be met.

The HKAS 19 Amendment, HKAS 39 Amendments regarding cash flow hedge accounting of forecast intragroup transactions and financial guarantee contracts, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK (IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's Financial Statements in the period of initial application.

(E) Summary of Principal Accounting Policies

(a) Basis of consolidation

The consolidated Financial Statements include the financial statements of the Company and its subsidiary companies for the year ended 31 December 2005. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

A subsidiary company is an entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated profit and loss statement from the effective date of acquisition, being the date on which the Group obtains control, or up to the effective date of disposal, as appropriate. The gain or loss on the disposal of a subsidiary company represents the difference between the net proceeds from sale and the Group's share of its net assets, including the attributable carrying amount of goodwill.

The acquisition of subsidiary companies during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interest represents the interests of minority shareholders in the results and net assets of the Company's subsidiary companies.

In the Company's balance sheet, investments in subsidiary companies are stated at cost less any provision for impairment losses. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

(b) Cash and cash equivalents

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally less than three months when acquired, less bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management.

(c) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method, the weighted-average method or the moving average method, and in case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. The cost of goods purchased for resale includes costs incurred in bringing the goods to their present location. Net realizable value is determined on the basis of current anticipated sales prices less estimates of costs to completion and selling expenses.

(d) Property and equipment

Freehold land is stated at cost and is not depreciated. Other property and equipment is stated at cost less accumulated impairment losses and accumulated depreciation, calculated on the straight-line basis at annual rates estimated to write off their book values to residual values over their expected useful lives. Details of depreciation rates are given in Note 12(A).

The initial cost of property and equipment comprises its purchase price and any costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes asset retirement obligation, interest on borrowed funds used during the construction period and qualified borrowing costs from foreign exchange losses related to foreign currency-denominated liabilities used to acquire such assets. Major costs incurred in restoring property and equipment to their normal working condition are charged to the profit and loss statement. Improvements are capitalized and depreciated over their expected useful lives to the Group. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the profit and loss statement.

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

(e) Plantations

Oil palm plantations are classified into immature and mature plantations. Immature plantations are reclassified as mature plantations when they start to produce fresh fruit bunches at an average of at least four tons per hectare in one year. On average, an oil palm plantation takes about four years to reach maturity from the time of planting. Both immature and mature plantations are stated at fair value less estimated point-of-sale costs. The fair value of plantations is determined based on the present value of their expected net cash inflows. Net increments or decrements in the fair value of plantations are included in the profit and loss statement.

Rubber plantations are considered mature five to six years from the time of planting in the field.

(f) Associated companies

An associated company is an entity, not being a subsidiary company, in which the Group has a substantial long-term interest of generally not less than twenty per cent in the equity voting rights and over whose management the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated profit and loss statement, and its share of post-acquisition movements in reserves is recognized in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Income from associated companies is stated in the consolidated profit and loss statement as the Group's share of profits less losses of associated companies.

Where there has been a change recognized directly in the associated companies' equity, the Group will recognize its share of any changes and disclose this, when applicable in the consolidated statement of changes in equity.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(g) Asset retirement obligations

The net present value of legal obligations associated with the retirement of an item of property and equipment that resulted from the acquisition, construction or development and the normal operation of property and equipment is recognized in the period in which it is incurred.

(h) Income tax

Income tax comprises current and deferred taxes. Income tax is recognized in the profit and loss statement, or in equity if it relates to items that are recognized directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences (with limited exceptions) arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax assets and unused tax losses (with limited exceptions). The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(i) Provisions and contingent liabilities

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the effect of discounting is material, the amount recognized for a provision is the present value, at the balance sheet date, of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount, arising from the passage of time, is included in finance costs in the profit and loss statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

(j) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of assets including property and equipment, investments, goodwill and other 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 fair value less costs to sell and value in use.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss statement in the period in which it arises, unless the asset is carried at a revalued amount, then the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss of all assets other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset. However, this is limited and will not give rise to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(k) *Accounting for acquisition and disposal*

(I) Results

The results of subsidiary or associated companies acquired or sold are accounted for from or to the effective date of acquisition or disposal.

(II) Fair value adjustments

On the acquisition of a subsidiary company or an interest in an associated company, the acquisition cost is allocated to the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

(III) Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Upon adoption of HKFRS 3, goodwill is no longer amortized. The carrying amount of accumulated amortization of goodwill at 1 January 2005 is eliminated with a corresponding decrease in the cost of goodwill amount on that date. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired and its amount will be written down for impairment when it is considered necessary. A previously recognized impairment loss for goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognized immediately in the consolidated profit and loss statement.

In the case of associated companies, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognized in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

(l) *Foreign currencies*

(I) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of United States dollars, which is the Company's functional and presentation currency.

(II) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss statement.

(III) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognized as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the profit and loss statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

(m) Turnover and revenue recognition

Turnover represents the amounts received and receivable from the sale of goods and properties and the rendering of services to third parties, falling within the ordinary activities of the Group's businesses. Turnover from sales is recognized when the ownership of goods sold has been transferred to the buyer. Turnover from services is recognized when it can be measured reliably by reference to stages of completion for the rendering of the said services.

(n) Segmental information

A segment is a distinguishable component of the Group that is engaged either in providing certain products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. They are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year. Head Office and other items mainly comprise Head Office assets, borrowings and overheads.

(o) Leases

Leases, where substantially all of the risks and rewards of ownership of assets remain with the lessor, are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are recorded in the profit and loss statement on the straight-line basis over the lease terms.

Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently recognized as expenses on the straight-line basis over the lease terms.

Lease obligations having provisions for bargain purchase options, ownership transfer at the end of the lease term, or minimum lease payments, which approximate the fair market value of the property are capitalized. The related obligations are recognized as liabilities. Finance lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. A finance lease gives rise to a depreciation expense for the asset as well as a borrowing cost for each period. Finance charges are charged directly to current operations. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

(p) Employee benefits

(I) Pension obligations

The Group operates defined contribution and defined benefit retirement schemes.

Contributions to defined contribution schemes by the Group and employees are calculated as a percentage of the employees' basic salaries. The Group's contributions to defined contribution schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to the contributions vesting fully.

Contributions to defined benefit schemes are determined based on the value of the retirement scheme assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations, and are determined on the basis of actuarial valuations using the projected unit credit method. The costs of defined benefit schemes are charged against profit on a systematic basis so as to be spread over the expected remaining service lives of the employees affected. Actuarial gains and losses are recognized immediately in the profit and loss statement as and when they occur.

(II) Long service payments

Certain of the Group's employees are eligible for long service payments in the event of the termination of their employment. A provision is recognized in respect of the probable future long service payments expected to be made. The provision is the best estimate of the probable future payments that have been earned by the employees from their service to the Group at the balance sheet date.

(III) Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the relevant shares (market conditions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, based on the best available estimate.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, an expense, as a minimum, is recognized as if the terms had not been modified. An expense is recognized for any increase in the value of the transactions as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(IV) Cash-settled transactions

The Group's associated companies grants share appreciation rights (SARs) to eligible key executives and advisors, and recognize the services received and the liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. The liability is measured, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. Until settled, any changes in fair value at each reporting date will be recognized in the profit and loss statement.

(V) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilized by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(q) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Other costs include exchange differences on foreign currency borrowings. Exchange differences arising from foreign currency borrowings are included in borrowing costs to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed in the profit and loss statement in the year in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

(r) Financial assets/investments and financial liabilities

Applicable to the year ended 31 December 2004:

Short-term investments are securities stated at fair value. At each balance sheet date, the unrealized gains and losses arising from changes in fair values of short-term investments are recognized in the consolidated profit and loss statement.

The gains or losses on the disposals of short-term investments, representing the difference between the net sales proceeds and the carrying amount of the investments, are recognized in the consolidated profit and loss statement as they arise.

Applicable to the year ended 31 December 2005:

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument and derecognize a financial asset when the Group no longer control the contractual rights to the cash flows that comprise the financial instrument which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument have already expired or are passed through to an independent third party. A financial liability (or a part of a financial liability) is derecognized when the obligation is extinguished. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using settlement date accounting.

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. Financial assets or financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit and loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

After initial recognition, the following financial assets and liabilities are measured at amortized cost using the effective interest rate method: (i) loans and receivables; (ii) held-to-maturity investments; and (iii) financial liabilities other than liabilities measured at fair values through profit and loss, whereas available-for-sale assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss statement.

Investments in unquoted equity securities and derivatives linked thereon are measured at cost.

Amortizations of discounts and premiums are taken directly to the consolidated profit or loss statement. Changes in the fair value of financial assets and liabilities measured at fair value of (i) all derivatives (except for those eligible for hedge accounting); (ii) other items intended to be actively traded; and (iii) any item designated as held "at fair value through profit and loss" at origination, are taken directly to the profit or loss statement. Changes in the fair value of available-for-sale securities are recognized in equity, except for the foreign exchange fluctuations on available-for-sale debt securities and the interest component which is taken directly to net profit or loss for the period based on the asset's effective yield.

Financial assets and liabilities include financial instruments which may be a primary instrument, such as receivables, payables and equity securities, or a derivative instrument, such as financial options, futures and forwards, interest rate swaps and currency swaps.

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

(s) Derivative instruments

The Group uses derivative financial instruments such as long-term currency swaps, foreign currency options, interest rate swaps and forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are stated at fair value.

The criteria for a derivative instrument to be classified as a hedge include: (i) the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, (ii) the effectiveness of the hedge can be reliably measured, (iii) there is adequate documentation of the hedging relationships at the inception of the hedge, and (iv) for cash flow hedges, the forecast transaction that is subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

For purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognized asset or liability and firm commitment; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognized immediately in the profit and loss statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the profit and loss statement.

In relation to cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion is recognized in consolidated profit or loss statement. The gains or losses that are accumulated in equity are transferred to the profit and loss statement in the same period in which the hedged item affects the profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, any net cumulative gain or loss previously recognized in equity is transferred to the profit and loss statement.

(t) Related parties

A party is considered to be related to the Group if:

(I) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Company that gives it significant influence over the Group; or (iii) has joint control over the Group;

(II) the party is an associate;

(III) the party is a jointly-controlled entity;

(IV) the party is a member of the key management personnel of the Group;

(V) the party is a close member of the family of any individual referred to in (I) or (IV);

(VI) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (IV) or (V); or

(VII) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Group.

(u) Non-current assets held for sale

Non-current assets held for sale represent assets having carrying amounts which will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable. Non-current assets held for sale are stated at the lower of its carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

(A) Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have significant effect on the amounts recognized in the Financial Statements:

Classification of financial assets and financial liabilities

The Group determines the classification of certain of assets and liabilities as financial assets and financial liabilities by judging whether they meet the definition of financial assets and financial liabilities set out in HKAS 39. Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Group's accounting policies set out in Note 2 (E)(r) to the Financial Statements.

(B) Estimation Uncertainty

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

(a) Estimating useful lives and residual values of property and equipment

The Group estimates the useful lives and residual values of its property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives and residual values of the property and equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives and residual values of its property and equipment is based on its collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives and residual values of the Group's property and equipment would increase its recorded depreciation expenses and decrease its non-current assets.

(b) Assets impairment

Hong Kong GAAP requires that an impairment review be performed when certain impairment indication is present. In case of goodwill, such assets are subject to yearly impairment test and whenever there is an indication that such asset may be impaired.

Purchase accounting requires extensive use of accounting estimates to allocate the purchase price to the fair market values of the assets and liabilities purchased, including intangible assets and contingent liabilities. The Group's business acquisitions have resulted in goodwill, which in the past affected its results of operations for the amount of periodic amortization expense. However, the Group no longer amortizes goodwill under Hong Kong GAAP effective 1 January 2005. Instead, goodwill is subject to a periodic impairment test.

Determining the fair value of property and equipment and plantations at the date of acquisition, which requires the determination of future cash flows expected to be generated from the continued use (i.e., value in use) and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that property and equipment and plantations associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on its financial condition and results of operations.

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

(c) Deferred tax assets

The Group reviews the carrying amounts at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its recognized deferred tax assets to be utilized.

(d) Financial assets and liabilities

Hong Kong GAAP requires that the Group carries certain of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the Group's consolidated profit and loss and equity.

(e) Estimating allowances for doubtful accounts

The Group estimates the allowance for doubtful accounts related to its trade receivables based on two methods. The amounts calculated using each of these methods are combined to determine the total amount it provide. First, the Group evaluate specific accounts where it has information that certain customers are unable to meet their financial obligations. In these cases, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific provisions for customers against amounts due to reduce its receivable amounts that the Group expects to collect. These specific provisions are re-evaluated and adjusted as additional information received affects the amounts estimated. Second, a provision is established as a certain percentage of age of status of receivables. This percentage is based on a collective assessment of historical collection, write-off, experience and changes in its customer payment terms.

The amounts and timing of recorded expenses for any period would differ if the Group utilized different estimates. An increase in the Group's allowance for doubtful accounts would increase its recorded operating expenses and decrease its current assets.

(f) Estimating allowances for inventories

The Group estimates the allowance for inventories based on the best available facts and circumstances, including but not limited to, the inventories' own conditions (i.e. whether they are damaged or become wholly or partially obsolete), their market selling prices, estimated costs of completion and estimated costs to be incurred for their sale. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated.

(g) Pension and other retirement benefits

The determination of the Group's obligation and cost for defined benefits is dependent on its selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets, rates of salary and pension increase and average remaining working lives of employees. In accordance with Hong Kong GAAP, actual results that differ from the Group's assumptions are recognized immediately in the profit and loss statement as and when they occur. While the Group believes that its assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the Group's assumptions may materially affect its pension and other retirement obligations.

(h) Income taxes

Significant estimation is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax in the period in which such determination is made.

(i) Measurement of fair value of plantations

Hong Kong GAAP requires that the Group carries its plantations at fair value less estimated point-of-sale costs, which requires extensive use of accounting estimates. Significant components of fair value measurement were determined using assumptions including average life of plantations, yield per hectare, plantation area and discount rates. The amount of changes in fair value would differ if the Group utilized different assumptions. Any changes in fair value of these plantations would affect directly the Group's profit and loss and equity.

(j) Derivative liabilities

Hong Kong GAAP requires that the Group carries its option embedded in the Exchangeable Notes issued, at fair value, which requires extensive use of accounting estimates. Significant components of fair value measurement were determined using assumptions including the trading price of the Exchangeable Notes and expected volatility of the underlying PLDT share price, and the average market interest rate. The amount of changes in fair value would differ if the Group utilized different assumptions. Any changes in fair value of the Exchangeable Notes would affect directly the Group's profit and loss and equity.

(k) Equity-settled share option expense

Hong Kong GAAP requires that the Group carries its share options issued by the Company and its subsidiary companies, at fair value, which requires extensive use of accounting estimates. Significant components of fair value measurement were determined using assumptions including expected volatility and dividend yield and average risk-free interest rate. The amount of changes in fair value would differ if the Group utilized different assumptions. Any changes in fair value of the share options would affect directly the Group's profit and loss.

4. TURNOVER AND SEGMENTAL INFORMATION

	2005 *US$ millions*	2004 *US$ millions*
Turnover		
Sale of goods and properties	1,946.3	2,022.5
Rendering of services	39.8	32.1
Total	1,986.1	2,054.6

Segmental Information

Segmental information, relating to the Group's business and geographic segments, follows. Analysis by business segment is the Group's primary segment reporting format as this is more relevant to the Group when making operational and financial decisions. Details of the Group's principal investments are provided on pages 123 to 124. Particulars in respect of a discontinued operation are set out in Note 8.

By Principal Business Activity – 2005

	Telecom-munications *US$ millions*	Consumer Food Products *US$ millions*	Property and Transportation *US$ millions*	Head Office *US$ millions*	2005 Total *US$ millions*
Profit and Loss					
Segment revenue – turnover	–	1,923.4	62.7	–	1,986.1
Segment results	–	164.8	28.8	(58.6)	135.0
Net borrowing costs					(107.3)
Share of profits less losses of associated companies	141.8	(4.2)	0.1	–	137.7
Profit before taxation					165.4
Taxation					(26.6)
Profit for the year					138.8
Assets and Liabilities					
Segment assets	–	1,578.8	116.4	199.7	1,894.9
Associated companies	364.4	3.5	13.8	–	381.7
Unallocated assets					70.5
Total assets					2,347.1
Segment liabilities	–	273.6	56.9	95.4	425.9
Unallocated liabilities					1,214.5
Total liabilities					1,640.4
Other Information					
Capital expenditure	–	50.4	6.2	–	56.6
Depreciation	–	57.4	5.2	–	62.6
Foreign exchange and derivative losses, net	–	16.6	–	25.4	42.0
Other non–cash expenses	–	2.1	2.7	11.5	16.3

By Principal Geographical Market – 2005

	The Philippines *US$ millions*	Indonesia *US$ millions*	Others *US$ millions*	Head Office *US$ millions*	2005 Total *US$ millions*
Segment revenue – turnover	62.7	1,923.4	–	–	1,986.1
Segment assets	116.4	1,578.8	–	199.7	1,894.9
Associated companies	363.9	3.5	14.3	–	381.7
Unallocated assets					70.5
Total assets					2,347.1
Capital expenditure	6.2	50.4	–	–	56.6

By Principal Business Activity – 2004

	Telecom-munications *US$ millions*	Consumer Food Products *US$ millions*	Property and Transportation *US$ millions*	Head Office *US$ millions*	2004 (Restated) Total *US$ millions*
Profit and Loss					
Segment revenue – turnover	–	1,995.8	58.8	–	2,054.6
Segment results	–	189.1	34.2	(16.0)	207.3
Net borrowing costs					(111.9)
Share of profits less losses of associated companies	87.8	(1.8)	(0.1)	–	85.9
Profit before taxation					181.3
Taxation					(31.9)
Profit for the year from continuing operations					149.4
Profit for the year from a discontinued operation					18.8
Profit for the year					168.2
Assets and Liabilities					
Segment assets	–	1,796.1	122.7	42.3	1,961.1
Associated companies	140.7	1.4	26.8	–	168.9
Unallocated assets					38.7
Total assets					2,168.7
Segment liabilities	–	229.6	104.7	55.2	389.5
Unallocated liabilities					1,188.1
Total liabilities					1,577.6
Other Information					
Capital expenditure	–	101.6	3.5	–	105.1
Depreciation and amortization	–	53.7	0.9	–	54.6
Foreign exchange and derivative losses, net	–	33.1	0.3	–	33.4
Other non-cash expenses	–	1.4	9.2	7.4	18.0

By Principal Geographical Market – 2004

	The Philippines	Indonesia	Head Office	2004 (Restated) Total
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*
Segment revenue – turnover	58.8	1,995.8	–	2,054.6
Segment assets	122.7	1,796.1	42.3	1,961.1
Associated companies	167.5	1.4	–	168.9
Unallocated assets				38.7
Total assets				2,168.7
Capital expenditure	3.5	101.6	–	105.1

5. NET BORROWING COSTS

	2005	2004
	US$ millions	*US$ millions*
Bank loans and other loans		
– wholly repayable within five years	113.0	122.1
– not wholly repayable within five years	2.2	4.5
Total Borrowing Costs	115.2	126.6
Less interest income	(7.9)	(14.7)
Net Borrowing Costs	107.3	111.9

6. PROFIT BEFORE TAXATION

	Notes	2005 US$ millions	2004 (Restated) US$ millions
Profit Before Taxation is Stated after (Charging)/Crediting			
Cost of inventories sold		(1,182.1)	(1,201.5)
Employee remuneration	*35(A)*	(198.6)	(193.7)
Depreciation	*12*	(62.6)	(53.1)
Foreign exchange and derivative losses, net		(42.0)	(33.4)
Cost of services rendered		(52.7)	(31.9)
Operating lease rentals			
– Land and buildings		(11.8)	(12.7)
– Hire of plant and equipment		(0.8)	(1.6)
– Others		–	(6.0)
Loss on dilution of interests in a subsidiary and an associated company		(6.3)	(3.0)
Recognition of prepaid land premiums		(4.2)	(2.2)
Doubtful debt provisions (included in distribution costs)		(4.8)	(1.4)
Auditors' remuneration			
– Audit services		(1.2)	(1.4)
– Other services		(0.6)	(0.1)
Amortization of goodwill (included in other operating expenses, net)	*17*	–	(1.5)
Gain on divestments, net		–	11.0
Unrealized gains on available-for-sale assets/investments		–	2.2
(Loss)/gain on sale of property and equipment		(0.7)	1.8
Gain on changes in fair value of plantations	*13*	12.3	1.7
Realized gain/(loss) on sale of available-for-sale assets/investments		5.6	(3.3)
Excess over the cost of a business combination recognized as income (included in other operating expenses, net)		2.7	–
Dividend income from available-for-sale assets/investments		1.0	–

7. TAXATION

No Hong Kong profits tax (2004: Nil) has been provided as the Group had no estimated assessable profits (2004: Nil) in Hong Kong for the year. Taxation on assessable profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which the Company's subsidiary companies operate.

	2005 US$ millions	2004 (Restated) US$ millions
Subsidiary Companies – Overseas		
Current taxation *(Note 27)*	28.9	30.6
Deferred taxation *(Note 20)*	(2.3)	1.3
Total	26.6	31.9

Included within the share of profits less losses of associated companies is taxation of US$19.2 million (2004 restated: US$22.4 million) and which is analyzed as follows.

	2005	2004 (Restated)
	US$ millions	*US$ millions*
Associated Companies – Overseas		
Current taxation	38.5	31.7
Deferred taxation	(19.3)	(9.3)
Total	19.2	22.4

A reconciliation between profit before taxation multiplied by the applicable tax rates and the taxation amount as shown in the consolidated profit and loss statement is as follows.

	2005		2004 (Restated)	
	US$ millions	%	*US$ millions*	%
Profit Before Taxation (Including profit from a discontinued operation)	165.4		200.1	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	73.7	44.6	70.4	35.2
Tax effect of:				
– Non–deductible expenses	2.7	1.6	0.1	–
– Share of profits less losses of associated companies	(51.8)	(31.3)	(34.9)	(17.4)
– Income not subject to tax	(0.1)	(0.1)	(6.4)	(3.2)
– Others	2.1	1.3	2.7	1.3
Taxation	26.6	16.1	31.9	15.9
Attributable To:				
Continuing operations	26.6	16.1	31.9	15.9
A discontinued operation	–	–	–	–
	26.6	16.1	31.9	15.9

8. PROFIT FOR THE YEAR FROM A DISCONTINUED OPERATION

2004's profit from a discontinued operation represents a US$17.1 million gain on disposal of the Group's entire 49 per cent interest in Escotel (a company operating in India) and US$1.7 million share of Escotel's profit prior to its disposal.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Profit attributable to equity holders of the parent includes US$18.5 million (2004: US$15.9 million) net foreign exchange and derivative losses that arose primarily on the changes in the fair values of derivatives and translation of the unhedged foreign currency denominated borrowings, and US$4.3 million (2004: US$23.0 million) of net non-recurring gains.

Analysis of Foreign Exchange and Derivative Losses

	2005	**2004**
	US$ millions	*US$ millions*
Foreign exchange and derivative (losses)/gains		
– Subsidiary companies	(42.0)	(33.4)
– Associated companies	19.0	(5.4)
Subtotal	(23.0)	(38.8)
Attributable to taxation and minority interest	4.5	22.9
Total	(18.5)	(15.9)

The net non-recurring gains for 2005 mainly comprise goodwill compensation received by Indofood in connection with the establishment of a joint venture entity of US$4.8 million, Metro Pacific's agreed one-time adjustments made to amounts owed to certain creditors, partly offset by a loss on dilution of the Group's 1.4 per cent interest in PLDT of US$6.3 million, whereas 2004's net non-recurring gains mainly comprise a gain on disposal of 49 per cent interest in Escotel (US$17.1 million).

Included within the profit attributable to equity holders of the parent for the year ended 31 December 2005 is a profit of US$350.8 million (2004 restated: US$130.3 million) attributable to the Company representing principally the Company's reversal of impairment provision for values of subsidiary companies holding investments in PLDT.

10. ORDINARY SHARE DIVIDENDS

	U.S. cent per ordinary share		**US$ millions**	
	2005	**2004**	**2005**	**2004**
Interim	0.13	–	4.1	–
Proposed final	0.26	–	8.2	–
Total	0.39	–	12.3	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (AGM).

11. EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the profit for the year attributable to equity holders of the parent of US$103.0 million (2004 restated: US$123.9 million), and the weighted average number of 3,186.7 million (2004: 3,186.0 million) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on: (i) a profit equal to the profit for the year attributable to equity holders of the parent of US$103.0 million (2004 restated: US$123.9 million) adjusted by the US$1.2 million (2004: Nil) reduction in share of profits less losses of associated companies assuming (a) the exercise of the Company's option of increasing its interest in Level Up and (b) the conversion of dilutive convertible preference shares and share options issued by PLDT, and (ii) a share base equal to the aggregate of the weighted average number of ordinary shares of 3,186.7 million (2004: 3,186.0 million) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 28.4 million (2004 restated: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options of the Company during the year.

Since the earnings per share amount will be increased when taking into account the Exchangeable Notes issued by a wholly-owned subsidiary of the Company, the Exchangeable Notes has an anti-dilutive effect on the basic earnings per share for the year and are excluded from in the calculation of diluted earnings per share.

12. PROPERTY AND EQUIPMENT

	Land and buildings	**Machinery, equipment and vessels**	**Consolidated Total**
	US$ millions	*US$ millions*	*US$ millions*
Cost			
At 1 January 2005	240.4	768.1	1,008.5
Exchange translation	(8.1)	(30.4)	(38.5)
Additions	17.0	39.6	56.6
Acquisition of subsidiary companies *(Note 33(D))*	2.7	–	2.7
Disposals	(6.0)	(15.0)	(21.0)
Reclassification	–	3.6	3.6
At 31 December 2005	246.0	765.9	1,011.9
Accumulated Depreciation and Impairment			
At 1 January 2005	54.6	306.5	361.1
Exchange translation	(1.9)	(9.4)	(11.3)
Charge for the year	11.0	51.6	62.6
Disposals	(0.7)	(12.5)	(13.2)
Reclassification	–	(10.2)	(10.2)
At 31 December 2005	63.0	326.0	389.0
Net Book Amount at 31 December 2005	183.0	439.9	622.9

	Land and buildings *US$ millions*	Machinery, equipment and vessels *US$ millions*	Consolidated Total (Restated) *US$ millions*
Cost			
At 1 January 2004	238.1	775.2	1,013.3
Exchange translation	(18.6)	(59.6)	(78.2)
Additions	16.9	44.0	60.9
Acquisition of subsidiary companies *(Note 33(D))*	8.6	12.2	20.8
Disposals	(4.6)	(3.7)	(8.3)
At 31 December 2004	240.4	768.1	1,008.5
Accumulated Depreciation and Impairment			
At 1 January 2004	49.6	291.9	341.5
Exchange translation	(4.4)	(26.9)	(31.3)
Charge for the year	9.5	43.6	53.1
Disposals	(0.1)	(2.1)	(2.2)
At 31 December 2004	54.6	306.5	361.1
Net Book Amount at 31 December 2004	185.8	461.6	647.4

(A) Principal annual rates of depreciation:

Freehold land	Nil
Freehold buildings	2.5% to 20.0%
Leasehold buildings	Lesser of period of lease, or 2.5% to 20.0%
Machinery, equipment and vessels	2.5% to 50.0%

(B) The land and buildings are freehold and leasehold properties held outside Hong Kong.

(C) Property and equipment with a net book amount of US$29.4 million (2004: US$23.4 million) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

13. PLANTATIONS

	Consolidated 2005 *US$ millions*	2004 *US$ millions*
At 1 January	147.4	160.0
Exchange translation	(8.8)	(14.3)
Acquisition of subsidiary companies *(Note 33(D))*	18.1	–
Gain arising from changes in fair value less estimated point-of-sale costs, net	12.3	1.7
At 31 December	169.0	147.4

Physical measurements of oil palm plantations at 31 December are as follows:

	Consolidated	
	2005	**2004**
	Hectares	*Hectares*
Mature plantations	58,064	53,542
Immature plantations	3,344	898
Total	61,408	54,440

The Group's plantations mainly represent palm trees owned by Indofood. The palm trees are planted for the production of fresh fruit bunches (FFB), which are used in the production of crude palm oil (CPO) and palm kernel oil (PKO). The fair value of plantations was determined by reference to the projected selling prices of CPO and PKO in the market. Significant assumptions made in determining the fair value of the plantations are:

(A) No new planting/re-planting activities are assumed.

(B) The palm trees have an average life of 23 years, with the first three years as immature and the following 20 years as mature or productive under a well established planting system.

(C) The yield per hectare of palm trees is based on guidelines from the Centre for Palm Tree Research in Indonesia which varies with the average age of palm trees.

(D) A discount rate of 20.5 per cent (2004: 21.7 per cent), which represents the asset specific rate for Indofood's plantation operation, was applied in the discounted cash flow calculation.

During 2005, Indofood's palm trees produced 1.3 million tons (2004: 1.4 million tons) of FFB. The fair value of FFB harvested during 2005, determined at the point of harvest, amounted to US$91.3 million (2004: US$112.8 million).

14. SUBSIDIARY COMPANIES

	Company	
	2005	**2004**
	US$ millions	*US$ millions*
Unlisted shares at cost	1,115.2	1,115.6
Less provision for impairment	(368.4)	(421.4)
Total	746.8	694.2

The Company's listed subsidiary companies are held through intermediate holding companies.

(A) Amounts due from subsidiary companies are unsecured, interest-bearing at a range of zero per cent to 7.0 per cent per annum (2004: zero per cent to 5.0 per cent per annum) and not repayable within one year. The carrying value of the Company's amounts due from subsidiary companies approximates to their fair values.

(B) Amounts due to subsidiary companies are unsecured, interest-bearing at a range of zero per cent to 8.4 per cent per annum (2004: zero per cent to 8.4 per cent per annum) and not repayable within one year.

(C) Details of principal subsidiary companies which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on pages 123 to 124.

(D) Metro Pacific group contributes to the Group's property and transportation business segment (refer to Note 4). Since the fourth quarter of 2001, it has been unable to meet its debt repayment obligations. Metro Pacific's ability to continue as a going concern is dependent on a number of factors, which includes its ability to settle or restructure its debt obligations, the availability of refinancing of debts and the success of its plan to revitalize its business and generate sufficient cash flows to ensure sustained and profitable operations. Metro Pacific had successfully reduced its parent company's debt obligations to Pesos 732 million (US$13.8 million) at 31 December 2005 from Pesos 11.7 billion (US$220.4 million) at 31 December 2001 when the debt reduction program was commenced. Out of the Pesos 732 million (US$13.8 million) outstanding debts at 31 December 2005, Pesos 525 million (US$9.9 million) are presently subject to final documentation and Metro Pacific expects that this Pesos 525 million (US$9.9 million) amount will be settled before the close of 2006.

Nenaco, a 99.0 per cent-owned subsidiary company of Metro Pacific, obtained approval for its corporate rehabilitation plan from the Manila Regional Trial Court on 4 October 2004. With the approval of the corporate rehabilitation plan, Nenaco will focus on enhancing its profitability by strengthening its marketing efforts and operational efficiencies.

15. ASSOCIATED COMPANIES

	Consolidated	
	2005	**2004**
		(Restated)
	US$ millions	*US$ millions*
Shares at cost		
– Listed	1,324.6	1,266.7
– Unlisted	44.1	22.0
Share of post acquisition reserves	(987.7)	(1,132.1)
Loans to associated companies	0.7	12.3
Total	381.7	168.9

(A) At 31 December 2005, both the listed and unlisted investments were located outside Hong Kong.

(B) At 31 December 2005, the market valuation of listed investments was US$1,495.4 million (2004: US$1,002.7 million) and net dividends received and receivable were US$38.9 million (2004: Nil).

(C) Loans to associated companies are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the loans to associated companies approximates to their fair values.

(D) Details of the Group's principal associated companies which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on pages 123 to 124.

(E) Additional financial information in respect of the Group's principal associated company, PLDT, as prepared under HK GAAP, is set out below.

	PLDT	
	2005	**2004**
		(Restated)
	US$ millions	*US$ millions*
Operating Results		
Turnover	2,201.3	2,053.7
Profit before taxation	790.4	484.7
Profit after taxation	788.3	392.6
Net profit	580.9	393.9
Net Assets		
Current assets	952.4	834.7
Long-term assets	3,793.9	4,228.5
Total Assets	4,746.3	5,063.2
Current liabilities	(1,067.5)	(1,016.8)
Long-term liabilities and provisions	(2,369.3)	(3,200.6)
Total Liabilities	(3,436.8)	(4,217.4)
Minority interest	(21.9)	(16.1)
Net assets at 31 December	1,287.6	829.7

(F) PLDT was incorporated under the law of the Philippines on 28 November 1928 to provide telephone services in the Philippines. PLDT's charter was initially limited to a period of 50 years but has since been extended twice for 25 years each, the last extension being for an additional 25-year period ending 2028. Under its amended charter, which became effective on 24 August 1991, PLDT is authorized to provide virtually every type of telecommunications service, both within the Philippines and between the Philippines and other countries. PLDT operates under the jurisdiction of the Philippine National Telecommunications Commission which jurisdiction extends, among other things, to approving major services offered by PLDT and certain rates charged by PLDT.

(G) The Group has discontinued the recognition of its share of losses of Prime Media Holdings, Inc. because the share of losses of this associated company fully eroded the Group's investment. The Group's unrecognized share of losses of this associated company for the current year and cumulatively was nil (2004: US$0.1 million) and US$7.9 million (2004: US$7.9 million), respectively.

16. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND PREPAYMENTS

	Consolidated 2005	2004
	US$ millions	*US$ millions*
Trade receivables	173.3	170.3
Other receivables	107.9	184.9
Prepayments	17.2	14.0
Total	298.4	369.2
Presented As:		
Non-current Portion	11.7	9.2
Current Portion	286.7	360.0
Total	298.4	369.2

The carrying amount of the current portion of accounts receivable, other receivables and prepayments approximates to their fair value. The fair value of non-current portion of accounts receivables, other receivables and prepayments is US$9.8 million (2004: US$9.2 million) which is determined based on cash flows discounted using a weighted average prevailing interest rate of 13.4 per cent (2004: 11.3 per cent). The weighted average effective interest rate of non-current portion of accounts receivable, other receivables and prepayments is 8.8 per cent (2004: 11.3 per cent).

An ageing profile of trade receivables is analyzed as follows:

	Consolidated 2005	2004
	US$ millions	*US$ millions*
0 to 30 days	148.5	145.5
31 to 60 days	8.8	6.0
61 to 90 days	6.0	12.2
Over 90 days	10.0	6.6
Total	173.3	170.3

As the Group's trade receivables relate to a large number of diversified customers, there is no concentration of credit risk.

Indofood allows export customers 60 days of credit and local customers an average of 30 days of credit. Metro Pacific collects contract receivables related to property sales by installments over periods ranging between one to five years.

17. GOODWILL

	Consolidated 2005 US$ millions	2004 US$ millions
Cost		
At 1 January		
As previously reported	39.4	19.7
Effect of adopting HKFRS 3 *(Note 2(E)(k)(III))*	(2.9)	–
As restated	36.5	19.7
Exchange translation	(1.7)	–
Additions		
– on acquisition of subsidiary companies *(Note 33(D))*	4.4	6.9
– balance of subsidiary companies acquired	–	2.1
– on increased investments in subsidiary companies	–	10.7
Reclassifications	(6.5)	–
At 31 December	32.7	39.4
Accumulated Amortization		
At 1 January		
As previously reported	2.9	1.4
Effect of adopting HKFRS 3 *(Note 2(E)(k)(III))*	(2.9)	–
As restated	–	1.4
Charge for the year	–	1.5
At 31 December	–	2.9
Net Book Amount at 31 December	32.7	36.5

(A) In 2004, goodwill not previously eliminated against the consolidated reserves was amortized on the straight-line basis over its estimated useful life of not more than 20 years.

(B) Goodwill is allocated to the Group's cash-generating units identified according to business and country of operation segment. All of the goodwill amounts at 31 December 2005 and 31 December 2004 relates to Indofood's businesses which contribute to the Group's consumer food products business segment located in Indonesia.

(C) The recoverable amounts of Indofood's businesses have been determined based on a value in use calculation using cash flow projections based on financial projections approved by Indofood's senior management covering a five-year period. The discount rates applied to cash flow projections ranges from 15.3 per cent to 18.3 per cent.

18. PREPAID LAND PREMIUMS

	Consolidated 2005 US$ millions	2004 US$ millions (Restated)
At 1 January		
As previously reported	–	–
Effect of adopting HKAS 17 *(Note 2(B))*	45.5	47.8
As restated	45.5	47.8
Exchange translation	(4.0)	(3.8)
Additions	–	3.7
Recognized during the year	(4.2)	(2.2)
Total prepaid land premiums	37.3	45.5
Current portion included in accounts receivable, other receivables and prepayments	(2.8)	(4.5)
At 31 December	34.5	41.0

	2005 US$ millions	2004 US$ millions
Overseas, Held on:		
Leases of between 10 and 50 years	32.3	44.2
Leases of less than 10 years	5.0	1.3
	37.3	45.5

19. AVAILABLE-FOR-SALE ASSETS/INVESTMENTS

	Consolidated 2005 US$ millions	2004 US$ millions (Restated)
Listed investments, at fair value:		
– Equity investments – Overseas	47.5	19.6
– Debentures with a fixed interest of 14.0 per cent (2004: 14.0 per cent) and a maturity date of 1 October 2014 (2004: 1 October 2014) – Overseas	0.5	1.8
Unlisted investment, at cost less impairment provisions:		
– Equity investment – Overseas	6.1	11.5
Unlisted investment, at fair value:		
– Club debentures – Hong Kong	1.0	–
Total	55.1	32.9
Presented As:		
Non-current Portion	2.7	11.5
Current Portion	52.4	21.4
Total	55.1	32.9

(A) The fair values of listed equity investments and debentures are based on quoted market prices. The fair values of unlisted investment in club debentures have been estimated by reference to recent market transaction prices. The Directors believe that the estimated fair values by reference to market prices, which are recorded in the carrying amounts of available-for-sale assets, and the related changes in fair values, which are recorded directly in the Group's equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

(B) Unlisted equity investments with carrying amounts of US$3.2 million (2004: US$9.8 million) was pledged to secure certain of the Group's banking facilities.

20. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

	Tax losses carried forward	**Allowance for doubtful accounts**	**Others**	**Consolidated Total**
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*
Deferred Tax Assets				
At 1 January 2005	3.7	0.9	1.2	5.8
Exchange translation	(0.2)	–	–	(0.2)
Acquisition of subsidiary companies *(Note 33(D))*	0.1	–	1.2	1.3
Credit to the profit and loss *(Note 7)*	0.6	0.3	6.1	7.0
Transfer to provision for taxation *(Note 27)*	–	–	(1.1)	(1.1)
Reclassification	–	–	2.6	2.6
At 31 December 2005	4.2	1.2	10.0	15.4

	Tax losses carried forward	**Allowance for doubtful accounts**	**Others**	**Consolidated Total (Restated)**
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*
Deferred Tax Assets				
At 1 January 2004	6.2	0.9	0.4	7.5
Exchange translation	(0.5)	(0.1)	(1.6)	(2.2)
(Charge)/credit to the profit and loss *(Note 7)*	(2.0)	0.1	0.7	(1.2)
Transfer to provision for taxation *(Note 27)*	–	–	(0.3)	(0.3)
Reclassification	–	–	2.0	2.0
At 31 December 2004	3.7	0.9	1.2	5.8

The movements in deferred tax liabilities during the year are as follows:

	Depreciation of property and equipment *US$ millions*	Change in fair value of plantations *US$ millions*	Withholding tax on undistributed earnings of subsidiary and associated companies *US$ millions*	Others *US$ millions*	Consolidated Total *US$ millions*
Deferred Tax Liabilities					
At 1 January 2005	(78.5)	(38.4)	(4.1)	9.2	(111.8)
Exchange translation	4.3	2.1	–	1.5	7.9
Acquisition of subsidiary companies *(Note 33(D))*	–	–	–	(3.7)	(3.7)
(Charge)/credit to the profit and loss *(Note 7)*	(4.8)	(3.8)	1.0	2.9	(4.7)
Transfer to/(from) provision for taxation *(Note 27)*	–	–	1.4	(0.6)	0.8
Reclassification	–	–	–	(2.6)	(2.6)
At 31 December 2005	(79.0)	(40.1)	(1.7)	6.7	(114.1)

	Depreciation of property and equipment *US$ millions*	Change in fair value of plantations *US$ millions*	Withholding tax on undistributed earnings of subsidiary and associated companies *US$ millions*	Others *US$ millions*	Consolidated Total (Restated) *US$ millions*
Deferred Tax Liabilities					
At 1 January 2004	(76.2)	(41.9)	(9.3)	8.1	(119.3)
Exchange translation	7.0	3.7	–	(1.0)	9.7
Acquisition of subsidiary companies	–	–	–	(3.4)	(3.4)
Increased investments in subsidiary companies	–	–	–	(0.9)	(0.9)
(Charge)/credit to the profit and loss *(Note 7)*	(9.3)	(0.2)	4.5	4.9	(0.1)
Transfer to provision for taxation *(Note 27)*	–	–	0.7	3.5	4.2
Reclassification	–	–	–	(2.0)	(2.0)
At 31 December 2004	(78.5)	(38.4)	(4.1)	9.2	(111.8)

At 31 December 2005, tax losses available to reduce future income tax, arising in the entities to which they relate, amounted to US$55.0 million (2004: US$73.9 million) in respect of non-Hong Kong tax losses, and US$39.1 million (2004: US$40.7 million) in respect of Hong Kong tax losses. The non-Hong Kong tax losses are available for offsetting against future taxable profits of the companies in which the losses arose for 3 to 5 years, whereas Hong Kong tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax assets have been recognized in respect of these losses as they have arisen in subsidiary companies that have been loss-making for some time. Except for this, deferred tax assets have been properly recognized.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

21. OTHER NON-CURRENT ASSETS

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Assets not yet used in operation	36.4	42.0
Claims for tax refund	42.2	34.3
Deferred charges	22.1	15.6
Advances and deposits for purchases	4.2	14.6
Currency swap assets, net	–	130.1
Others	25.9	5.8
Total	130.8	242.4

Assets not yet used in operation represents certain of Indofood's properties which have been acquired but not yet used in operation.

Claims for tax refund relates to advance tax payment made by Indofood in respect of wheat importation which is creditable against Indofood's corporate income tax payable.

Deferred changes mainly represents deferred costs and expenses relating to Indofood's arrangements for the lease of land.

Advances and deposits for purchases mainly relates to Indofood's payments made to suppliers and contractors in relation to the purchase of raw materials and capital equipments.

The balance of currency swap assets (net) at 31 December 2004 relates to Indofood's hedging program. The amount was derecognized in March and April 2005 upon Indofood's termination of the related currency swap contracts.

22. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2005	**2004**	**2005**	**2004**
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*
Cash at banks and in hand	133.2	186.6	26.4	27.0
Short-term time deposits	162.8	–	162.8	–
Total	296.0	186.6	189.2	27.0

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

23. INVENTORIES

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Raw materials	177.2	159.3
Work in progress	5.6	6.1
Finished goods	91.0	81.0
Properties held for sale	29.2	35.0
Total	303.0	281.4

(A) Principal properties held by Metro Pacific group for sale, included in properties held for sale, at 31 December 2005 are as follows:

Location	Group's Economic interest (%)	Approximate gross development area (sq.m.)[i]	Type	Status	Estimated completion date
Laguna (Escudero)	23.4	4,000,000	F	Planning	–
Costa de Madera, San Juan, Batangas	34.7	3,720,000	R, Ro	Planning	–
Lakewood, Cabanatuan	5.3	3,036,358	R	Under construction	2007
Batulao, Batangas	75.5	2,107,050	R	Planning	–
Calasiao, Pangasinan	31.0	1,860,000	R	Planning	–
Calatagan, Batangas	23.4	618,217	R, Ro	Under construction	2011
Lemery, Batangas	38.5	604,643	F	Under construction	2006
Punta Fuego 1, Batangas	21.2	452,603	R, Ro	Under construction	2006
San Pablo, Laguna (Monte Lago)	23.4	330,000	R	Under construction	2009
Stonecrest, San Pedro, Laguna	19.6	297,821	R	Under construction	2006
Talisay, Cebu	18.9	274,591	R	Under construction	2006
Urdaneta, Pangasinan	6.0	254,804	R	Under construction	2007
Punta Fuego 2, Batangas	13.6	236,927	R, Ro	Under construction	2006
Silang, Cavite (Ponderosa)	22.7	185,064	F	Under construction	2006
Nasugbo, Batangas (Lhuiller)	13.6	145,000	R, Ro	Under construction	2008
Waterwood, Bulacan	25.7	59,071	R	Under construction	2006
Lucena City, Quezon	62.7	40,706	R	Completed	–
Legaspi City, Albay	18.9	36,505	C	Under construction	2008
Nasugbu, Batangas (Amara Condo)	23.4	11,210	H	Under construction	2008
Punta Fuego 2 – expansion, Batangas	13.6	430	F	Under construction	2006

R = Residential, F = Farm, Ro = Resort, C = Commercial, H = Hotel

(i) Total area for sale as subdivisions and land designated for parks and open spaces.

(B) At 31 December 2005, inventories with a carrying amount of US$12.6 million (2004: US$11.6 million) have been pledged as security for certain of the Group's liabilities.

24. NON-CURRENT ASSETS HELD FOR SALE

The amount represents two of the vessels held by Nenaco planned to be sold in 2006.

25. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Trade payables	172.7	145.1
Accrued expenses	44.8	49.7
Other payables	61.1	69.5
	278.6	264.3

An ageing profile of trade payables is analyzed as follows:

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
0 to 30 days	160.8	121.2
31 to 60 days	1.7	7.4
61 to 90 days	1.3	5.6
Over 90 days	8.9	10.9
Total	172.7	145.1

All of the accounts payable, other payables and accruals are expected to be settled within one year. The carrying amounts of the Group's accounts payable, other payables and accruals approximate to their fair values.

26. BORROWINGS

	Effective interest rate (%)	**Maturity**	*Notes*	**Consolidated 2005**	**2004**
				US$ millions	*US$ millions*
Short-term					
Bank loans	8.9 – 18.0	2006		221.3	172.1
Other loans	2.5 – 13.5	2006	(A)	123.7	116.8
Subtotal				345.0	288.9
Long-term					
Bank loans	8.0 – 18.0	2007 – 2012	(B)	57.9	91.0
Other loans	2.5 – 13.5	2007 – 2010	(C)	686.3	670.2
Subtotal				744.2	761.2
Total				1,089.2	1,050.1

The balance of short-term borrowings includes US$124.0 million (2004: US$154.7 million) of current portion of long-term borrowings.

The maturity profile of the Group's borrowings is as follows:

	Bank loans		Other loans		Consolidated Total	Consolidated Total
	2005	2004	2005	2004	2005	2004
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
Not exceeding one year	221.3	172.1	123.7	116.8	345.0	288.9
More than one year but not exceeding two years	0.5	67.0	151.8	115.8	152.3	182.8
More than two years but not exceeding five years	1.7	15.8	516.9	545.5	518.6	561.3
More than five years	55.7	8.2	17.6	8.9	73.3	17.1
Total	279.2	263.1	810.0	787.0	1,089.2	1,050.1
Representing amounts repayable						
– wholly within five years	223.5	254.9	792.4	778.1	1,015.9	1,033.0
– not wholly within five years	55.7	8.2	17.6	8.9	73.3	17.1
Total	279.2	263.1	810.0	787.0	1,089.2	1,050.1

The carrying amounts of the borrowings are denominated in the following currencies:

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Rupiah	542.8	534.7
U.S. dollar	501.7	465.3
Peso	44.7	50.1
Total	1,089.2	1,050.1

An analysis of the carrying amounts of borrowings into fixed and variable interest rate is as follows:

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Fixed interest rate	703.4	830.0
Variable interest rate	385.8	220.1
Total	1,089.2	1,050.1

The carrying amounts and fair values of the long-term borrowings are as follows:

	Carrying amounts		Fair values	
	2005	**2004**	**2005**	**2004**
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*
Bank loans	57.9	91.0	60.6	90.3
Other loans	686.3	670.2	724.1	694.8
Total	744.2	761.2	784.7	785.1

The fair values are based on published price quotations for listed notes and bonds issued by the Group and projected cash flows discounted using the borrowings rates ranging from 8.0 per cent to 12.5 per cent (2004: 7.2 per cent to 15.7 per cent) for the other fixed interest rate borrowings. The carrying amounts of the Group's variable interest rate borrowings approximate to their fair values due to frequent repricing.

The carrying amounts of short-term borrowings approximate to their fair value.

Details of borrowings are set out below.

(A) Short-term Other Loans

The balance includes US$107.3 million of bonds (2004: US$112.6 million) (with a face value of US$108.0 million (2004: US$113.0 million)) issued by CAB Holdings Limited (CAB), a wholly-owned subsidiary company of the Company. These bonds were issued by CAB, on 29 July 2003, totaling US$115.0 million, bear interest at 8.25 per cent payable semi-annually in arrears, mature on 29 July 2006 at their aggregate principal amount and are secured by the Group's 51.5 per cent (2004: 51.5 per cent) interest in Indofood held by CAB and, subject to certain limitations and conditions, are guaranteed by the Company. During 2003, one of the Company's wholly-owned subsidiary companies repurchased US$2.0 million face value of the bonds, which were then canceled in 2004. During 2005, CAB repurchased US$5.0 million face value of the bonds at 102.875 per cent of its face value and canceled them during the year.

(B) Long-term Bank Loans

The balance includes a US$49.3 million (with a face value of US$50.0 million) bank loan (2004: Nil) secured by the Group's 1.7 per cent interest in PLDT, subject to a variable LIBOR (London Inter-bank Offer Rates) based interest rate, which is repayable in November 2012.

(C) Long-term Other Loans

The balance principally includes US$193.1 million (with a face value of US$199.0 million) Exchangeable Notes (2004: Nil) issued by First Pacific Finance Limited (FPF), a wholly-owned subsidiary company of the Company, and various bonds issued by Indofood.

(a) Details of the Exchangeable Notes issued by FPF are summarized as follows:

On 18 January 2005, the Company issued US$199.0 million five-year zero coupon Exchangeable Notes through FPF. The Exchangeable Notes are unsecured obligations of FPF and are unconditionally and irrevocably guaranteed by the Company.

The Exchangeable Notes have a yield to maturity of 5.625 per cent per annum. Unless previously redeemed, exchanged, or purchased and cancelled, FPF will redeem the Exchangeable Notes at 131.97 per cent of their principal amount on 18 January 2010. Noteholders have the option to put the Exchangeable Notes to FPF at 118.11 per cent of their principal amount value on the third anniversary of the Exchangeable Notes.

The Exchangeable Notes carry an initial conversion premium of 21 per cent, which translates the conversion price into US$29.33 per PLDT share. Assuming full exchange of the Exchangeable Notes, the Exchangeable Notes will be exchangeable into approximately 3.8 per cent of the total common shares issued by PLDT.

(b) Details of the bonds issued by Indofood are summarized as follows:

(I) US$151.7 million five-year Eurobonds (with a face value of US$153.7 million, which represents the original amount issued in June 2002 of US$280.0 million less repurchase of the bonds with a face value of US$126.3 million made during 2005) (2004: US$278.6 million), with a coupon rate of 10.375 per cent, payable semi-annually, and mature in June 2007;

(II) Rupiah 1.2 trillion (US$123.4 million) of Rupiah bonds (which represents the original amount issued in June 2003 of Rupiah 1.5 trillion (US$152.6 million) less repurchase of the bonds with a face value of Rupiah 0.3 trillion (US$30.3 million) during 2005) (2004: US$161.5 million), with a coupon rate of 13.5 per cent, payable quarterly, and mature in June 2008; and

(III) Rupiah 1.0 trillion (US$98.8 million) of Rupiah bonds (which represents the original amount issued in July 2004 of Rupiah 1.0 trillion (US$101.7 million) less repurchase of the bonds with a face value of Rupiah 24 billion (US$2.4 million) during 2005) (2004: US$107.6 million), with a coupon rate of 12.5 per cent, payable quarterly, and mature in July 2009.

(D) Pledge of Assets

At 31 December 2005, total borrowings include secured bank and other borrowings of US$187.5 million (2004: US$182.2 million). Such bank and other borrowings were secured by the Group's property and equipment, available-for-sale assets/investments and inventories equating to a net book value of US$45.2 million (2004: US$44.8 million) and the Group's interests of 51.5 per cent (2004: 51.5 per cent) in Indofood and 1.7 per cent (2004: 3.2 per cent) in PLDT, respectively.

27. PROVISION FOR TAXATION

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
At 1 January	26.2	36.8
Exchange translation	(1.2)	(4.2)
Acquisition of subsidiary companies	–	0.6
Provision for taxation on estimated assessable profits for the year *(Note 7)*	28.9	30.6
Transfer (to)/from deferred taxation *(Note 20)*	(0.3)	3.9
Total	53.6	67.7
Tax paid	(42.4)	(41.5)
At 31 December	11.2	26.2

28. DEFERRED LIABILITIES AND PROVISIONS

					Consolidated	
	Pension	**Deferred income**	**Long-term payables**	**Others**	**Total 2005**	**Total 2004** (Restated)
	US$ millions	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*	*US$ millions*
At 1 January	40.9	28.3	39.6	16.4	125.2	129.6
Exchange translation	(2.1)	0.1	1.4	0.1	(0.5)	(5.1)
Additions	22.5	0.1	5.2	3.1	30.9	9.4
Payment and utilization	(10.1)	(2.5)	(11.9)	(3.3)	(27.8)	(27.8)
Reclassification	–	–	(19.8)	–	(19.8)	19.1
At 31 December	51.2	26.0	14.5	16.3	108.0	125.2
Presented As:						
Current Portion	1.0	1.3	3.6	9.4	15.3	18.1
Non-current Portion	50.2	24.7	10.9	6.9	92.7	107.1
Total	51.2	26.0	14.5	16.3	108.0	125.2

Pension relates to accrued liabilities in relation to retirement schemes and long service payments.

Deferred income relates to an upfront service fee received by Asia Link B.V. (ALBV), a wholly-owned subsidiary company of the Company, from Smart Communications, Inc. (Smart), a wholly-owned subsidiary company of PLDT, in respect of their arrangement for service agreement (Note 37(D)) and the unrealized gross profit arising on property sales.

Long-term payables relate to Metro Pacific's estimated liabilities for property development and Indofood's accrued costs for dismantlement, removal or restoration in relation to property and equipment.

Others mainly relate to provisions for warranty claims.

29. SHARE CAPITAL

	Consolidated and Company	
	2005	**2004**
	US$ millions	*US$ millions*
Authorized		
5,000,000,000 (2004: 5,000,000,000) ordinary shares of U.S. 1 cent each	50.0	50.0
Issued and fully paid		
3,188,833,003 (2004: 3,185,993,003) ordinary shares of U.S. 1 cent each	31.9	31.9

During the year, 2,840,000 share options were exercised at the exercise price of HK$1.76 per share, resulting in the issue of 2,840,000 new ordinary shares of U.S. 1 cent each for a total cash consideration of HK$5.0 million (US$0.6 million). Details of the Company's share option scheme are set out in Note 36(D) (a) to the Financial Statements.

30. OTHER RESERVES

An analysis of the Group's exchange reserve, by principal operating company, is set out below.

	Consolidated	
	2005	**2004** (Restated)
	US$ millions	*US$ millions*
PLDT	(29.3)	(50.4)
Indofood	(25.0)	(11.6)
Others	3.4	2.2
Total	(50.9)	(59.8)

An analysis of the accumulated reserves of associated companies, included within the consolidated reserves, is set out below.

	Consolidated	
	2005	**2004** (Restated)
	US$ millions	*US$ millions*
Revenue reserve	(962.4)	(1,081.7)
Exchange reserve	(29.3)	(50.4)
Unrealized gains on cash flow hedges	4.0	–
Total	(987.7)	(1,132.1)

The contributed surplus of the Company arose from a reorganization of the Group in 1988 and represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiary companies acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus provided certain conditions are met.

31. MINORITY INTEREST

An analysis of the Group's minority interest, by principal operating company, is set out below.

	Consolidated	
	2005	**2004**
		(Restated)
	US$ millions	*US$ millions*
Indofood	296.1	335.6
Metro Pacific	27.8	28.1
Total	323.9	363.7

32. DERIVATIVE LIABILITY

Derivative liability represents the fair value of the option embedded within the Exchangeable Notes issued by FPF. Details regarding the issue of the Exchangeable Notes is set out in Note 26(C)(a).

The exchangeable option of the Exchangeable Notes qualified as an embedded derivative under HKAS 39. Upon the initial recognition, the fair value of the option of US$13.9 million is identified and accounted for separately from the fair value of the bond instrument. The fair value of the option liability was remeasured to US$39.3 million on a mark-to-market basis at 31 December 2005, reflecting primarily the change in PLDT share price. The US$25.4 million increase in fair value of the option during 2005 was recognized and charged to the profit and loss statement.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(A) Increased Investments in Associated Companies

The cash outflows of US$57.3 million mainly relates to the Group's increased interest in PLDT by approximately 1.1 per cent.

(B) Acquisition of Associated Companies

The cash outflows of US$17.6 million mainly relates to the Group's acquisition of a 25.0 per cent interest in Level Up in March 2005 and an associated company formed by Indofood.

(C) Deposits for acquisition and increased investments in subsidiary companies

The cash outflows of US$14.9 million mainly represent deposits made by PT Salim Ivomas Pratama (SIMP), a 80 per cent owned subsidiary company of Indofood, for the acquisition of convertible bonds issued by PT Sarana Inti Pratama, a palm breading and research management company. 2004's cash outflow of US$39.1 million represents Indofood's deposits, for acquiring convertible bonds issued by PT Bina Makna Indopratama (Bina Makna) and the acquisition of two oil palm plantation companies.

(D) Acquisition of Subsidiary Companies

	Indofood's acquisition of Silveron Investments Limited (SIL) and its subsidiary companies US$ millions	Indofood's acquisition of PT Kebun Mandiri Sejahtera (KMS) US$ millions	Others US$ millions	2005 Total US$ millions	2004 Indofood's acquisition of Perfect Wealth Investments Limited and its subsidiary company US$ millions
Consideration					
Cash and cash equivalents	1.8	7.7	0.1	9.6	28.4
Accounts receivable, other receivables and prepayments (Current)	16.7	–	–	16.7	–
Total	18.5	7.7	0.1	26.3	28.4
Net Assets					
Property and equipment *(Note 12)*	1.7	0.7	0.3	2.7	20.8
Plantations *(Note 13)*	13.7	4.4	–	18.1	–
Goodwill	–	–	–	–	2.1
Deferred tax assets *(Note 20)*	0.6	0.7	–	1.3	0.7
Other non–current assets	1.9	–	–	1.9	–
Cash and cash equivalents	2.6	0.5	0.3	3.4	2.8
Accounts receivable, other receivables and prepayments (Current)	0.5	4.9	1.8	7.2	8.5
Inventories	0.1	0.3	0.8	1.2	5.8
Accounts payable, other payables and accruals	(0.8)	(0.3)	(3.1)	(4.2)	(6.4)
Short–term borrowings	(1.1)	–	–	(1.1)	(1.1)
Provision for taxation	–	–	–	–	(0.6)
Long–term borrowings	(1.4)	–	–	(1.4)	–
Deferred tax liabilities *(Note 20)*	(3.7)	–	–	(3.7)	(3.4)
Minority interest	–	(0.8)	–	(0.8)	(7.7)
Total Net Assets Acquired at Fair Value	14.1	10.4	0.1	24.6	21.5
Goodwill/(Excess over the Cost of a Business Combination) *(Note 17)*	4.4	(2.7)	–	1.7	6.9
Net Inflow/(Outflow) of Cash and Cash Equivalents per Consolidated Cash Flow Statement	0.8	(7.2)	0.2	(6.2)	25.6

In June 2005, SIMP completed the acquisition of 100 per cent interest in SIL at a consideration of Rupiah 175 billion (US$18.5 million). SIL has 100 per cent direct and indirect equity interests in PT Kebun Ganda Prima and PT Citranusa Intisawit, respectively, which are both engaged in the operations of oil palm plantations in Indonesia.

In November 2005, SIMP acquired a 93.4 per cent interest in KMS, a rubber plantation company for a consideration of Rupiah 75 billion (US$7.7 million).

Since the date of acquisitions, SIL incurred a loss for the year of US$0.5 million and KMS had a profit for the year of US$0.1 million, which was included in the profit and loss of the Group. If all of the above acquisitions had taken place on 1 January 2005, the turnover and profit for the year of the Group for the year ended 31 December 2005 would have been US$1,987.8 million and US$138.8 million, respectively. The subsidiary companies acquired during the year had net cash outflows from operating activities and investing activities, respectively, of US$0.2 million and US$3.3 million, and received US$3.2 million in respect of financing activities during the year.

(E) Acquisition of Convertible Bonds

The cash outflows of US$5.2 million represents the acquisition by SIMP of convertible bonds issued by PT Tahta Bahtera (TB), a shipping company. The bonds had been converted into a 90.9 per cent equity interest in TB by SIMP in January 2006.

(F) Increased Investments in Subsidiary Companies

The cash outflows of US$4.9 million represent a remaining 20 per cent balance of payment (equivalent to Rupiah 48 billion) for Indofood's increased interest in four of its oils and distribution subsidiary companies, PT Bitung Menado Oil Industry, PT Intiboga Sejahtera, PT Sawitra Oil Grains and PT Indomarco Adi Prima, from approximately 80.0 per cent to 100 per cent through the acquisition and conversion of convertible bonds issued by Bina Makna and acquisition of the remaining minority interest of Bina Makna. In 2004, Indofood has made a 80 per cent deposit (equivalent to Rupiah 192 billion or US$21.4 million) for this acquisition, which has been included in 2004's cash flow statement as deposits for acquisition and increased investments in subsidiary companies. 2004's cash outflow of US$16.9 million principally represents payments made by Indofood for increasing its interest in a food seasonings subsidiary company, PT Indosentra Pelangi, from 70.0 per cent to 92.2 per cent.

(G) Restricted Cash

At 31 December 2005, the Group had US$4.7 million (2004: US$9.2 million) of cash which was restricted as to use. All of this US$4.7 million (2004: US$4.5 million) amount is expected to be released within one year from 31 December 2005 and required to be classified as current assets.

(H) Major Non-cash Transaction

During the year, Metro Pacific settled approximately Pesos 500 million (US$9.1 million) of borrowings through the transfer of available-for-sale assets and other property assets to its creditors.

34. COMMITMENTS AND CONTINGENT LIABILITIES

(A) Capital Expenditure

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Commitments in respect of subsidiary companies:		
Authorized, but not contracted for	15.1	19.1
Contracted, but not provided for	7.5	9.1
Total	22.6	28.2

The Group's capital expenditure commitments principally relate to Indofood's purchase of property, machinery and equipment.

The Company has no commitments in respect of capital expenditures (2004: Nil).

(B) Leasing Commitments

At 31 December 2005, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows.

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Land and Buildings		
– Within one year	3.5	2.1
– Between two and five years inclusive	9.8	7.0
– After five years	4.2	1.0
Subtotal	17.5	10.1
Hire of Plant and Equipment and Others		
– Within one year	0.5	0.5
– Between two and five years inclusive	1.0	1.3
– After five years	0.2	0.2
Subtotal	1.7	2.0
Total	19.2	12.1

At 31 December 2005, the Company did not have any leasing commitments (2004: Nil).

(C) Contingent Liabilities

At 31 December 2005, neither the Group nor the Company had any significant contingent liabilities (2004: Nil).

35. EMPLOYEE INFORMATION

(A) Remuneration

	2005	2004
		(Restated)
	US$ millions	*US$ millions*
Basic salaries	142.1	141.2
Bonuses	23.4	19.4
Benefits in kind	19.5	21.0
Pension contributions	8.4	7.7
Equity-settled share option expense	5.2	4.4
Total	198.6	193.7
Average Number of Employees	47,881	48,110

The above includes the remuneration of the Directors. Detailed disclosures in respect of Directors' remuneration are set out in Note 36(A) to the Financial Statements.

(B) Retirement Benefits

The Group operates both defined contribution and defined benefit schemes covering approximately 22,001 (2004: 24,653) employees.

(a) Defined Contribution Schemes

The Group operates six (2004: six) defined contribution schemes covering approximately 20,686 (2004: 23,469) employees. The assets of these schemes are held separately from the Group and are administered by independent trustees. Contributions to the schemes, either by the Group or by the employees, are determined by reference to the employees' salaries and length of service and range from zero per cent to 10 per cent (2004: zero per cent to 10 per cent). Under the terms of the schemes, the Group cannot be requested to make additional payments over and above these levels of contributions. In three (2004: three) of the schemes, forfeited contributions may be used to reduce the existing levels of employer contributions and, in 2005, no amounts (2004: Nil) were used for this purpose. At 31 December 2005, the forfeited contributions had been fully utilized.

(b) Defined Benefit Schemes

The Group operates four (2004: two) defined benefit schemes covering approximately 1,315 (2004: 1,184) employees. The assets of three of these schemes are held separately from the Group and are administered by independent trustees. Benefits are determined by reference to employees' final salaries and length of service, and the schemes have undergone independent valuations. These actuarial valuations, performed by PT Jasa Aktuaria Praptasentosa Gunajasa's actuary (a member of the Fellow Society of Actuary of Indonesia and Expert in Life Insurance in Indonesia) and Actuarial Advisers, Inc. and Mr. Orlando J. Manalang, FASP (members of Actuarial Society of the Philippines), were based on the projected unit credit method. The plan assets do not include any financial instruments of the Group or property occupied by, or other assets used by, the Group. At 31 December 2005, the Group's level of funding in respect of its defined benefit schemes was 45.8 per cent (2004: 55.3 per cent).

The amount of deficit under defined benefit schemes included in the balance sheet is as follows:

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Present value of defined benefit obligations	11.0	9.0
Fair value of plan assets	(6.2)	(6.4)
Liability in Balance Sheet	4.8	2.6

The movements of defined benefit liability during the year are as follows:

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
At 1 January	2.6	4.2
Exchange translation	(0.1)	(0.2)
Net pension scheme cost recognized in the profit and loss statement	3.5	1.0
Payment	(1.2)	(2.4)
At 31 December	4.8	2.6

The amount recognized in the profit and loss statement is analyzed as follows:

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Current service cost	0.4	0.4
Past service cost	3.5	0.5
Expected return on plan assets	(0.5)	(0.7)
Net actuarial losses recognized in the year	0.1	0.8
Total Included in Employee Remuneration (within Administrative expenses)	3.5	1.0
Actual Return on Plan Assets	8%	9%

Principal actuarial assumptions (weighted average) at 31 December are as follows:

	2005	**2004**
Discount rate	11%	9%
Expected return on plan assets	10%	9%
Future salary increases	7%	6%
Future pension increases	7%	6%
Average remaining working lives of employees (years)	12	12

(C) Loans to Officers

During 2005 and 2004, there were no loans made by the Group to officers which require disclosure pursuant to Section 161B of the Hong Kong Companies Ordinance.

36. DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

(A) Directors' Remuneration

The table below shows the remuneration of Directors on an individual named basis.

Directors' Remuneration – 2005

	Non-performance based			Performance	Equity-settled			
	Salaries	Other benefits	Pension contributions	based payments[i]	share option expense	Fees[ii]	Emoluments[iii]	2005 Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Chairman								
Anthoni Salim	435	–	–	–	–	–	–	435
Executive Directors								
Manuel V. Pangilinan *(Managing Director and Chief Executive Officer)*	1,467	210	91	1,008	1,224	–	–	4,000
Edward A. Tortorici	900	195	1,164	–	1,224	–	–	3,483
Robert C. Nicholson	933	21	2	467	941	–	–	2,364
Non-Executive Directors								
His Excellency Albert F. del Rosario	–	–	–	–	119	25	–	144
Sutanto Djuhar	–	–	–	–	–	–	–	–
Tedy Djuhar	–	–	–	–	–	–	–	–
Ibrahim Risjad	–	–	–	–	–	–	–	–
Benny S. Santoso	–	–	–	–	119	–	–	119
Independent Non-Executive Directors								
Graham L. Pickles	–	–	–	–	119	65	–	184
Edward K.Y. Chen *(GBS, CBE, JP)*	–	–	–	–	119	55	–	174
David W.C. Tang *(OBE, Chevalier de L'Ordre des Arts et des Lettres)*	–	–	–	–	119	30	77	226
Total	3,735	426	1,257	1,475	3,984	175	77	11,129

Directors' Remuneration – 2004

	Non-performance based			Performance	Equity-settled			2004
	Salaries	Other benefits	Pension contributions	based payments[i]	share option expense	Fees[ii]	Emoluments[iii]	(Restated) Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Chairman								
Anthoni Salim	–	–	–	–	–	–	–	–
Executive Directors								
Manuel V. Pangilinan *(Managing Director and Chief Executive Officer)*	1,480	189	76	1,003	939	–	–	3,687
Edward A. Tortorici	837	128	261	1,169	939	–	–	3,334
Robert C. Nicholson	749	2	1	375	721	–	–	1,848
Non–Executive Directors								
His Excellency Albert F. del Rosario	–	26	–	–	165	25	–	216
Sutanto Djuhar	–	–	–	–	–	–	–	–
Tedy Djuhar	–	–	–	–	–	–	–	–
Ibrahim Risjad	–	–	–	–	–	–	–	–
Benny S. Santoso	–	–	–	–	165	–	–	165
Independent Non–Executive Directors								
Graham L. Pickles	–	–	–	–	165	55	–	220
Edward K.Y. Chen *(GBS, CBE, JP)*	–	–	–	–	165	55	–	220
David W.C. Tang *(OBE, Chevalier de L'Ordre des Arts et des Lettres)*	–	–	–	–	165	35	77	277
Total	3,066	345	338	2,547	3,424	170	77	9,967

(i) Performance based payments comprise performance bonus and long-term monetary incentive awards.

(ii) For meetings attended.

(iii) For consultancy services provided to the Company.

Included within total Directors' remuneration is an amount of US$0.8 million (2004: US$0.9 million) paid by PLDT, an associated company, in respect of the services of the Managing Director and Chief Executive Officer.

(B) Senior Executives' Remuneration

As similar remuneration schemes operate for the senior executives of the Group, their remuneration may exceed that of the Company's Directors. Two (2004: Two) senior executives were among the Group's five highest earning employees. The remaining three (2004: three), of the five highest earning employees, are the Company's Directors.

	2005	**2004**
		(Restated)
	US$ millions	*US$ millions*
Non-performance based		
– Salaries and benefits	0.6	0.6
Performance based		
– Bonuses and long-term monetary incentive awards	0.2	0.2
Equity-settled share option expense	0.6	0.4
Total	1.4	1.2

The table below shows the remuneration of the two (2004: two) senior executives who were among the Group's five highest earning employees in 2005.

	2005	**2004**
		(Restated)
Remuneration bands	*Number*	*Number*
US$509,001 – US$573,000	–	1
US$637,001 – US$701,000	1	1
US$701,001 – US$765,000	1	–
Total	2	2

(C) Key Management Personnel Compensation

	Consolidated	
	2005	**2004**
	US$ millions	*US$ millions*
Non-performance based		
– Salaries and benefits	11.0	10.3
– Pension contributions	1.4	0.4
Performance based		
– Bonuses and long-term monetary incentive awards	3.4	4.4
Equity-settled share option expense	5.2	4.4
Total	21.0	19.5

(D) Share Options

Particulars of the share options of the Company and its subsidiary company granted to the Directors and senior executives of the Company and its subsidiary company at 31 December 2005 are set out below.

(a) Particulars of the Company's Share Option Scheme

Company	Share options held at 1 January 2005	Share options exercised during the year	Share options held at 31 December 2005	Share options exercise price *(HK$)*	Market price at date of grant *(HK$)*	Market price during period of exercise *(HK$)*	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors										
Manuel V. Pangilinan	31,800,000	–	31,800,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
Edward A. Tortorici	31,800,000	–	31,800,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
Robert C. Nicholson	24,500,000	–	24,500,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
Non-Executive Directors										
His Excellency Albert F. del Rosario	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
Benny S. Santoso	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
Independent Non-Executive Directors										
Graham L. Pickles	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
Edward K.Y. Chen *(GBS, CBE, JP)*	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
David W.C. Tang *(OBE, Chevalier de L'Ordre des Arts et des Lettres)*	2,840,000	(2,840,000)	–	1.76	1.76	2.65 to 2.70	1 June 2004	June 2005	June 2005	–
Senior Executives	32,286,000	–	32,286,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
Total	134,586,000	(2,840,000)	131,746,000							

At the AGM held on 24 May 2004, the Company's shareholders approved a share option scheme (the Scheme) under which the Directors may, at their discretion, at any time during the period of the Scheme, grant to directors and executives of the Company share options of the Company as part of the Company's long-term incentive program. The Scheme, which complies with the provisions set out in Chapter 17 of the Listing Rules, became effective on 24 May 2004. The Scheme will be valid for ten years and will expire on 23 May 2014.

The maximum number of shares on which options may be granted may not exceed 10 per cent of the Company's issued share capital, excluding any shares issued on the exercise of options at any time. The maximum number of shares in respect of which options may be granted under the Scheme to any one participant in any 12-month period is limited to one per cent of the aggregate number of shares of the Company in issue at the time of the proposed grant of options to such participant.

The exercise price in relation to each share option offer shall be determined by the Directors at their absolute discretion, but in any event shall not be less then the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of Stocks Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Company's share on the date of grant. The terms of the Scheme provide that subject to any other restrictions on vesting imposed by the Directors, share options may be exercised under the Scheme at any time from the date of acceptance until the date of expiry. All options presently outstanding under the Scheme are subject to certain restrictions on exercise including a prohibition on exercise at any time during the period commencing one year after the date on which any option is accepted. Options which lapse or are cancelled prior to their expiry date are deleted from the register of options.

On 1 June 2004, 134,586,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$0.849 or an aggregate value of US$14.6 million for all options granted. The assumptions used were as follows:

Share price at date of grant	HK$1.76
Exercise price	HK$1.76
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	55 per cent
Option life	10 years
Expected dividend yield	1 per cent per annum
Average risk-free interest rate (based on Hong Kong Exchange Fund Notes)	4.06 per cent per annum

Taking into account the expected turnover rate of Directors and senior executives and early exercise behavior, the average expected life of the options granted was estimated to be 6.61 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 75 per cent higher than the exercise price.

The binomial model, applied for determining of the estimated values of the share options granted under the Company's Scheme, was developed for use in estimating the fair value of traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the Company's share options have characteristics significantly different from those of traded options, changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Details of the Group's accounting policy in respect of share options granted are set out in Note 2(E)(p)(III) to the Financial Statements.

(b) Particulars of Metro Pacific's Share Option Schemes

METRO PACIFIC	Share options held at 1 January 2005	Share options canceled during the year	Share options held at 31 December 2005	Share option exercise price *(Peso)*	Market price at date of grant *(Peso)*	Grant date	Exercisable from	Exercisable until
Senior Executives	5,027,259	(5,027,259)	–	1.91	2.37	16 April 1995	April 1996	April 2005
	3,990,000	(3,990,000)	–	1.91	2.37	1 August 1995	August 1996	August 2005
	315,684	–	315,684	3.46	3.57	1 August 1997	August 1997	August 2007
Total	9,332,943	(9,017,259)	315,684					

On 15 May 1990, Metro Pacific approved a share option scheme (Old Scheme) under which Metro Pacific directors may, at their discretion, invite executives of Metro Pacific upon the regularization of employment of eligible executives, to take up share options of Metro Pacific to obtain an ownership interest in Metro Pacific and for long-term employment motivation. The scheme became effective on 15 May 1990. The scheme is valid for an indefinite period of time.

The maximum number of shares on which options may be granted may not exceed 10 per cent of the issued share capital of Metro Pacific, excluding any shares issued on the exercise of options at any time. At 31 December 2005, the number of shares issuable under share options granted under Metro Pacific's share option scheme was 315,684, which represents less than 0.01 per cent of Metro Pacific's shares in issue at that date. The maximum number of shares in respect of which options may be granted under the scheme to any one participant (including shares issued and issuable to him/her under all the options previously granted to him/her) is limited to 30 per cent of the maximum aggregate number of shares of Metro Pacific at the time of the proposed grant of options to such participant.

The exercise price in relation to each option offer shall be determined by Metro Pacific directors at their absolute discretion, but in any event shall not be less than the (i) average of the official closing price of the shares on the Philippine Stock Exchange (PSE) for the twenty trading days immediately preceding the relevant offer date or (ii) the par value of the shares.

On 12 August 2005, the shareholders of Metro Pacific approved a new share option scheme (New Scheme) under which Metro Pacific directors may, at their discretion, invite executives of Metro Pacific upon the regularization of employment of eligible executives, to take up share options of Metro Pacific to obtain an ownership interest in Metro Pacific and for the purpose of long-term employment motivation. The New Scheme is valid for ten years and became effective on 12 August 2005.

The maximum number of shares on which options may be granted under the New Scheme may not exceed 10 per cent of the issued share capital of Metro Pacific from time to time less the number of options outstanding under the Old Scheme. Upon the adoption of the New Scheme, no further share options will be granted under the Old Scheme. The aggregate number of shares which may be issued upon exercise of the options granted and to be granted to any eligible participant (whether or not already an option holder) in any twelve-month period shall not exceed one per cent of the shares in issue at the relevant time.

The exercise price in relation to each option grant under the New Scheme shall be determined by Metro Pacific directors at their absolute discretion, but in any event shall not be less than (i) the closing price of the Metro Pacific shares for one or more board lots of such Metro Pacific shares on the PSE on the option grant date; (ii) the average closing price of the Metro Pacific share for one or more board lots of such Metro Pacific shares on the PSE for the five business days immediately preceding the option grant date; or (iii) the par value of the Metro Pacific shares, whichever is higher.

No share options have been granted or exercised during the year in respect of Metro Pacific's share option schemes.

37. RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year are disclosed as follows:

(A) At 31 December 2005, Mcrae Investment Limited, a wholly-owned subsidiary company of the Company, had an outstanding receivable from Metro Pacific which amounted to Pesos 793 million (US$14.9 million) (31 December 2004: Pesos 793 million or US$14.1 million). The amount is interest-free, secured and repayable within one year.

(B) On 31 December 2004, Metro Pacific Resources, Inc. (MPRI), a company in which the Company has 100 per cent economic interest, entered into a subscription agreement with Metro Pacific to subscribe Pesos 450 million (US$8.0 million) of Series 1-C Preferred Shares which were issued in two tranches in January and June 2005.

(C) In August 2005, MPRI advances Pesos 61 million (US$1.1 million) to Metro Pacific in order to provide Metro Pacific with the cash resources to meet general working capital requirements. The amount is interest-free, unsecured and repayable within one year.

(D) ALBV, a wholly-owned subsidiary company of the Company, had a technical assistance agreement with Smart, a wholly-owned subsidiary company of PLDT, for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2004, subject to renewal upon mutual agreement between the parties. The agreement provides for quarterly payments of technical service fees equivalent to one per cent (2004: one per cent) of the consolidated net revenue of Smart.

ALBV also has an existing service agreement with Smart for a period of 25 years starting 1 January 1999, which shall automatically expire unless renewed by mutual agreement of both parties. Under the agreement, ALBV provides advice and assistance to Smart in sourcing capital equipment and negotiating with international suppliers, arranging international financing and other services therein consistent with and for the furtherance of the objectives of the services. Service agreement fees were paid for the whole 25-year period.

Total fees under these arrangements amounted to Pesos 567 million (US$10.3 million) for the year ended 31 December 2005 (2004: Pesos 507 million or US$9.0 million). At 31 December 2005, ALBV had outstanding receivables under the technical assistance agreement amounting to Pesos 194 million (US$3.7 million) (2004: Pesos 267 million or US$4.8 million).

(E) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated and affiliated companies, the majority of which are related to the Salim Family either through direct and/or common share ownership and common management. Mr. Anthoni Salim is the Chairman and a substantial shareholder of the Company and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows.

Nature of transactions	**Consolidated**	
For the year ended 31 December	**2005**	**2004**
	US$ millions	*US$ millions*
Profit and Loss Items		
Sales of finished goods		
– to associated companies	40.2	52.6
– to affiliated companies	33.3	23.7
Purchases of raw materials		
– from associated companies	25.9	15.8
– from affiliated companies	5.5	9.8
Management and technical services fee income and royalty income		
– from associated companies	0.4	0.2
– from affiliated companies	3.1	2.1
Rental expenses		
– to affiliated companies	1.4	3.1
Transportation and pump services expenses		
– to affiliated companies	1.0	1.6

Approximately four per cent (2004: four per cent) of Indofood's sales and two per cent (2004: two per cent) of its purchases were transacted with these related companies.

Nature of balances	**Consolidated**	
At 31 December	**2005**	**2004**
	US$ millions	*US$ millions*
Balance Sheet Items		
Accounts receivable – trade		
– from associated companies	0.1	6.8
– from affiliated companies	4.8	4.6
Accounts receivable – non-trade		
– from associated companies	0.1	3.8
– from affiliated companies	5.9	4.3
Long-term receivables		
– from associated companies	–	4.7
Accounts payable – trade		
– to associated companies	6.4	2.5
– to affiliated companies	1.2	1.2

Certain of the above Indofood's related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(F) Details of compensation of key management personnel of the Group during the year are set out in Note 36(C) to the Financial Statements.

38. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, other than derivatives, comprise bank loans and other interest-bearing loans, and cash and short-term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

It is, and has been, throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are market risk (including currency risk and price risk), credit risk, liquidity risk and fair value and cash flow interest rate risk. The Company's Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are set out in Note 2(E)(s) to the Financial Statements.

(A) Market Risk

(a) Currency Risk

To manage the Group's foreign exchange risk arising from future commercial transactions, recognized assets and liabilities, and improve investment and cash flow planning. In addition to natural hedge, the Group enters into and engages in foreign exchange contracts for the purpose of managing its foreign exchange rate exposures emanating from business, transaction specific, as well as currency translation risks and reducing and/or managing the adverse impact of changes in foreign exchange rates on the Group's operating results and cash flows. However, the aforementioned derivative instruments of the Group do not qualify as effective hedge and therefore not designated as effective hedges for accounting purposes in accordance with the provisions of HKAS 39.

(b) Price Risk

The Group is exposed to commodity price risk, especially wheat and CPO, which are the raw materials used to manufacture the Group's products, which depends on the level of demand and supply in the market, and the global economic environment. The Group is also exposed to commodity price risk as changes in fair values of future commodity contracts used by certain subsidiary companies to manage their exposures on commodity price fluctuations are directly recognized to profit and loss. Such future commodity contracts also do not qualify as effective hedge and therefore not designated as effective hedges for accounting purposes in accordance with the provisions of HKAS 39.

(B) Credit Risk

For consumer food products business, the Group has credit risk arising from the credit given to the customers, but it has policies in place to ensure that wholesales of products are made to creditworthy customers with an appropriate credit history. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has policies that limit the amount of credit exposure to any particular customer, such as requiring sub-distributors to provide bank guarantee. For the property business, transfers of property titles are effected upon full payment of the purchase price. In addition, receivable balances are monitored on an ongoing basis to reduce the Group's exposure to bad debts.

With respect to credit risk arising from the Group's other financial assets, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group has no significant concentrations of credit risk.

(C) Liquidity Risk

The Group manages its liquidity profile to be able to finance its capital expenditure and service its maturing debts by maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

The Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, and debt capital and equity market issues.

(D) Fair Value and Cash Flow Interest Rate Risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. At 31 December 2005, 64.6 per cent of the Group's borrowings were at fixed rates.

The value of the Group's investments in fixed rate debentures/debt securities fluctuate as a result of changes in market interest rates and the changes in their values are recognized in the Group's equity. As the Group has no significant floating rate financial assets, the Group's operating cash flows are substantially independent of changes in market interest rates.

39. SUBSEQUENT EVENTS

(A) Further to the Company's announcement dated 18 January 2006, the Group continues to acquire shares in PLDT. During January to March 2006, the Group acquired an aggregate of 1.3 million shares in PLDT, representing approximately 0.7 per cent of the total issued common shares of PLDT for a total consideration of US$44.5 million. As a result, the Group's economic and voting interests in PLDT increased to 24.5 per cent and 31.2 per cent, respectively.

(B) On 31 January 2006, NTT DoCoMo, Inc. (DoCoMo) had agreed to acquire 12,633,486 common shares of PLDT, representing approximately 7 per cent of PLDT's total outstanding common shares, from NTT Communications, Inc. (NTT Com) for a total consideration of Yen 52,103 million (equivalent to approximately US$440 million). NTT Com will retain 12,633,487 common shares of PLDT, thus remaining as a significant shareholder of PLDT with a similar 7 per cent equity holding.

The Company and certain of its group companies signed a Cooperation Agreement on 31 January 2006 with PLDT, DoCoMo and NTT Com which amended both the existing contracts between the parties and the shareholding arrangements. The share acquisition and other business arrangements will take effect after DoCoMo, PLDT and Smart acquire certain licenses and approvals.

Smart and DoCoMo have agreed to collaborate with each other in the rollout and development of 3G services in the Philippines. Smart will introduce DoCoMo's mobile internet service, i-mode, exclusively for Smart's subscribers. DoCoMo will provide the know-how, technologies and patents necessary for Smart to operate the i-mode service over GPRS and W-CDMA networks.

The actual transfer of 12,633,486 common shares of PLDT from NTT Com to DoCoMo was completed on 14 March 2006.

(C) On 27 March 2006, Metro Pacific announced a three-stage recapitalization and reorganization plan involving ultimately raising fresh capital of approximately Pesos 2.7 billion (US$50.9 million) from its existing shareholders and a third party strategic investor. The plan is expected to be concluded in September 2006.

40. COMPARATIVE AMOUNTS

As explained in Note 2(B) to the Financial Statements, due to the adoption of a number of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the Financial Statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved and authorized for issue by the Board of Directors on 31 March 2006.

5. SUMMARY OF PRINCIPAL INVESTMENTS AS AT 31 DECEMBER 2005

Philippine Long Distance Telephone Company ("PLDT")

PLDT is the leading telecommunications service provider in the Philippines. It has common shares listed on the Philippine Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. Through its three principal business groups, PLDT offers a wide range of telecommunications services: wireless (principally through wholly-owned subsidiary company Smart Communications, Inc.); fixed line (principally through PLDT); and information and communications technology (principally through wholly-owned subsidiary company ePLDT). PLDT has developed the Philippines' most extensive fiber optic backbone, cellular, fixed line and satellite networks.

Sector	:	Telecommunications
Place of incorporation/business area	:	The Philippines
Issued number of shares	:	180.8 million
Particular of issued shares held	:	Common shares of Pesos 5 par value
Economic interest/voting interest	:	23.9 per cent/30.5 per cent

Further information on PLDT can be found at www.pldt.com.ph

PT Indofood Sukses Makmur Tbk ("Indofood")

Indofood is the premier processed-foods company in Indonesia, which offers total food solutions to its customers. It is based in Jakarta, and is listed on the Jakarta and Surabaya Stock Exchanges. Through its four major business units, Indofood offers a wide range of food products: bogasari (flour and pasta), consumer branded products (noodles, food seasonings, snack foods, and nutrition and special foods), edible oils and fats (plantations, cooking oils, margarine and shortening) and Distribution. Indofood is considered as one of the world's largest instant noodles manufacturer by volume, and the largest flour miller in Indonesia. Indofood's flourmill in Jakarta is one of the largest in the world in terms of production capacity in one location. It also has an extensive distribution network in the country.

Sector	:	Consumer Food Products
Place of incorporation/business area	:	Indonesia
Issued number of shares	:	9.4 billion
Particular of issued shares held	:	Shares of Rupiah 100 par value
Economic interest/voting interest	:	51.5 per cent

Further information on Indofood can be found at www.indofood.co.id

Metro Pacific Corporation ("Metro Pacific")

Metro Pacific is a Manila, Philippines-based holding company listed on the Philippine Stock Exchange. Metro Pacific's businesses include property concerns Landco Pacific Corporation and Pacific Plaza Towers, and domestic Philippine shipping firm Negros Navigation Co., Inc.

Sector	:	Property and Transportation
Place of incorporation/business area	:	The Philippines
Issued number of shares	:	18.6 billion
Particular of issued shares held	:	Common shares of Peso 1 par value
Economic interest/voting interest	:	75.5 per cent

Further information on Metro Pacific can be found at www.metropacific.com

Level Up! International Holdings Pte Ltd ("Level Up")

Level Up is the pioneer and leading online game publisher in the Philippines, Brazil and India. Online games are a rapidly growing segment of the global video game industry, and Level Up focuses on online games in emerging markets.

Sector	:	Online games
Place of incorporation/business area	:	Singapore/The Philippines, Brazil and India
Issued number of shares	:	413,869
Particular of issued shares held	:	Ordinary shares of US$8 par value
Economic interest/voting interest	:	25.0 per cent

Further information on Level Up can be found at www.levelupgames.com

B. INDEBTEDNESS

As at 31 December 2006, the Group had outstanding borrowings of approximately US$1,196.4 million. The borrowings comprised secured bank loans of US$203.8 million, unsecured bank loans of US$457.5 million and unsecured other loans of US$535.1 million.

The secured bank loans were secured by certain of the Group's property and equipment, plantations, cash, inventories, accounts receivables and available-for-sale assets and the Group's interest of 4.3 per cent in PLDT.

The other loans comprised unsecured bonds of US$437.5 million (as described below), unsecured trust receipt loans of US$91.0 million and others. The bonds held by the Group as at 31 December 2006 comprise the following:

(a) US$194.7 million five-year zero coupon exchangeable notes issued by First Pacific Finance Limited ("**FPF**"), a wholly-owned subsidiary of the Company, due 18 January 2010. The exchangeable notes are unsecured obligations of FPF and are unconditionally and irrevocably guaranteed by the Company;

(b) Rupiah 1.2 trillion (US$135.0 million) Rupiah bonds issued by Indofood, with a coupon rate of 13.5 per cent, payable quarterly, and which mature in June 2008; and

(c) Rupiah 1.0 trillion (US$107.8 million) Rupiah bonds issued by Indofood, with a coupon rate of 12.5 per cent, payable quarterly, and which mature in July 2009.

As at 31 December 2006, the Group did not have any material contingent liabilities.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 December 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities.

Except for projected US$420.0 million secured bank loans for the Acquisition and US$218.9 million additional indebtedness arising from the acquisition and proportionate consolidation of Maynilad through a 50% consortium of MPIC, there is no material change in the Group's outstanding indebtedness and contingent liabilities from 31 December 2006 to the Latest Practicable Date.

C. FINANCIAL AND TRADING PROSPECTS

The Group's principal investments have remained the same since 31 December 2005. A small (0.31%) dilution in its PLDT shareholding has occurred over the period as a result of the conversion of convertible preference shares to common shares partly offset by the open market purchase of PLDT shares. MPC's recapitalization and reorganization plan has been completed and the listing of MPIC, a majority owned subsidiary of the Company, commenced on 15 December 2006. MPIC is a 50% shareholder in a consortium specifically established for the purpose of competing in a bid to acquire an 83.97% interest in Maynilad which holds an exclusive concession to provide water and sewerage services in the area of West Metro Manila, which bid was successful.

The consortium's winning bid comprised: (a) the payment of an amount of US$56.7 million in cash in respect of the acquisition of 83.97% of the equity in Maynilad and repayment of financial assistance previously provided to Maynilad; (b) the contribution of US$447.2 million as additional equity capital of Maynilad over three years in the form of a standby letter of credit; (c) a performance bond in an amount of US$12.0 million; and (d) the payment of transaction fees and expenses of approximately US$16.9 million. There has been no variation in either the remuneration payable to or benefits in kind receivable by the directors of MPIC as a consequence of that transaction.

On 23 January 2007, Indofood, a 51.5% owned subsidiary of the Company, completed the reverse takeover of IndoAgri, involving the injection of Indofood's edible oils and fats business into IndoAgri in consideration for the issue of new shares representing 98.67% of IndoAgri's enlarged share capital. Following completion of the proposed placement referred to below, it is proposed that the shares of IndoAgri will be listed on the mainboard of the Singapore Stock Exchange.

IndoAgri is one of Indonesia's major vertically integrated manufacturers of edible oils and fats with a significant market share in the branded cooking oil, as well as the margarine and shortening segments in Indonesia. Its operations range from oil palm cultivation and milling to refining, branding and marketing of cooking oil, margarine, shortening and other palm derivative products. In order to ensure compliance with the listing rules on shareholding spread applicable to companies listed on the mainboard of the Singapore Stock Exchange and thereby secure a listing for IndoAgri's shares on the mainboard of the Singapore Stock Exchange, IndoAgri entered into a placement agreement with underwriters on 7 February 2007 to place 338 million new shares representing 25% of its enlarged issued share capital to the public at a placement price of Singapore dollars 1.25 per share.

The placement of shares in IndoAgri by Indofood: (a) is an efficient way of raising additional finance to fund the capital requirements of IndoAgri; (b) achieves fair value potential of IndoAgri; (c) diversifies the funding sources to finance the development of IndoAgri as well as widening the investor base; (d) creates greater clarity of business and financial status of IndoAgri; and (e) will have the effect of diluting Indofood's shareholding in IndoAgri.

The trading and competitive environment in respect of all the Group's principal investments has remained positive. It is generally considered that the macro economic environment in both the Philippines and Indonesia has improved over the period since 31 December 2005.

The value of the Group's listed investments in PLDT, Indofood and in MPIC (following the completion of the MPC recapitalization and reorganization plan) has continued to increase over the period since 31 December 2005.

D. MATERIAL ADVERSE CHANGES

Save for a potential accounting loss that may be recorded in the financial statements of the Group due to the increase in the value of the option liability, which has a strong correlation to the change in share price of PLDT, embedded in the face value of US$199 million exchangeable notes which are exchangeable into shares of PLDT, the Directors confirm that there are no material adverse changes in the financial or trading position or outlook of the Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

E. WORKING CAPITAL STATEMENT

The Directors are of the opinion that following the Acquisition of the Sale Shares, the Group has sufficient working capital for its current requirements.

F. MANAGEMENT DISCUSSION AND ANALYSIS

(a) PTIC is a single investment holding vehicle. Its activity relates to the holding of an investment in the listed securities of PLDT. The shareholding has not changed over the last 3 years and PTIC has received over such period its attributable dividend income. The shareholding has continued to appreciate in value over the period and this appreciation can been seen and is reflected in the balance sheet of PTIC as available-for-sale financial assets (Appendix II).

(b) PTIC has no borrowings and there has been no change in its shareholding in PLDT nor are there any contingent liabilities or plans for material acquisitions or disposals.

(c) As at the Latest Practicable Date, the Group had an attributable economic interest in shares representing approximately 23% of the total issued common shares in PLDT, and the Group holds shares in PLDT enabling it to exercise or control the exercise of approximately 29% of the voting power at general meetings of PLDT.

PLDT's results are equity accounted for in the accounts of the Group. As shown in the 2005 annual report of the Group, PLDT contributed approximately US$132.2 million and US$117.1 million to the recurring profits of the Group for the two years ended 31 December 2005 respectively (representing approximately 112.8% and 100.3% of the recurring profit of the Group for the two years ended 31 December 2005 respectively). Based on the 2006 interim report of the Group, PLDT contributed approximately US$66.5 million to the recurring profits of the Group for the six months ended 30 June 2006 (or approximately 96.4% of the recurring profit of the Group of approximately US$69.0 million for the period). On this basis, most of the recurring profit of the Group was contributed by PLDT, demonstrating that PLDT is a critical strategic investment of the Group.

PLDT is a successful company making a significant contribution to the Group's profit. It has a leading market position in both mobile and fixed telephony and has grown this business significantly over the last few years.

The future revenue growth of PLDT is likely to come from broadband, business process outsourcing/call center and mobile. PLDT will continue to introduce various attractive innovative wireless broadband products and services. Moreover, PLDT will further strengthen its market leader position in wireless business through the ongoing network coverage and capacity expansion and market segmentation. This equips PLDT to transform itself from a cellular company into a multi-service wireless communications provider.

PLDT has a very manageable level of debt with a gearing ratio of 0.99 time, as disclosed in the latest audited accounts for the year ended 31 December 2005. With the strong cash flows generated by the business further debt has been repaid which has improved the gearing position since the audited accounts for the year ended 31 December 2005.

The Directors consider that the prospects of PLDT are promising. As far as the Company is aware, PLDT has no plans for material acquisitions or disposals.

ERNST & YOUNG
安永會計師事務所

12 February 2007

The Board of Directors
First Pacific Company Limited
24th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong SAR

Dear Sirs,

We set out below our report on the financial information relating to Philippine Telecommunications Investment Corporation ("PTIC") for each of the three years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of First Pacific Company Limited (the "Company") dated 12 February 2007 (the "Circular") in connection with the Company's proposed purchase of an additional interest of approximately 46% in the issued share capital of PTIC, an indirect subsidiary of the Company, whose approximately 54% equity interest is currently held by the Company.

PTIC was incorporated in the Philippines with limited liability on 9 November 1967. The principal activities of PTIC are investment holding and related activities.

The statutory financial statements of PTIC for each of the three years ended 31 December 2004, 2005 and 2006, which were prepared in accordance with accounting principles generally accepted in the Philippines, were audited by Sycip Gorres Velayo & Co..

For the purpose of this report, we have carried out independent audit procedures on the financial information of PTIC for the Relevant Periods (the "Financial Information"), in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have examined the Financial Information and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, based on audited financial statements, after making such adjustments as are appropriate.

The Financial Information, together with the notes thereto, is the responsibility of the directors of PTIC. It is our responsibility to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of PTIC as at 31 December 2004, 2005 and 2006 and of the results and cash flows of PTIC for the Relevant Periods.

A. FINANCIAL INFORMATION

Profit and Loss Statements

	Years ended 31 December		
	2006	**2005**	**2004**
	(Pesos)	*(Pesos)*	*(Pesos)*
REVENUES			
Dividend income	2,030,672,514	1,457,918,728	–
Interest income	580,956	559,531	537,467
Foreign exchange gain	–	–	8,435
	2,031,253,470	1,458,478,259	545,902
EXPENSES			
Professional fees	233,861	475,972	461,865
Provision for unrecoverable prepaid tax	–	168,486	–
Taxes and licenses	2,940,936	9,225	9,440
Others	62,343	50,011	10,135
	3,237,140	703,694	481,440
PROFIT FOR THE YEAR	2,028,016,330	1,457,774,565	64,462

See accompanying Notes to the Financial Information.

Balance Sheets

		31 December		
	Notes	**2006**	**2005**	**2004**
		(Pesos)	*(Pesos)*	*(Pesos)*
NON-CURRENT ASSETS				
Long term investments	5	–	–	659,266,024
Available-for-sale financial assets	5	66,387,370,650	47,772,872,605	–
		66,387,370,650	47,772,872,605	659,266,024
CURRENT ASSETS				
Cash and cash equivalents	6	19,243,018	34,163,356	11,801,737
Interest receivable		13,117	16,385	29,475
Prepaid tax		–	–	168,486
		19,256,135	34,179,741	11,999,698
CURRENT LIABILITIES				
Accruals and other payables	7	1,294,780	23,562,202	1,237,996
NET CURRENT ASSETS		17,961,355	10,617,539	10,761,702
NET ASSETS		66,405,332,005	47,783,490,144	670,027,726
EQUITY				
Issued capital	8	22,990,300	22,990,300	22,990,300
Additional paid-in capital		1,030,989	1,030,989	1,030,989
Available-for-sale financial assets reserves		65,728,104,626	47,113,606,581	–
Retained earnings		653,206,090	645,862,274	646,006,437
Total equity		66,405,332,005	47,783,490,144	670,027,726

See accompanying Notes to the Financial Information.

Statements of Changes in Equity

	Notes	Issued capital *(Pesos)*	Additional paid-in capital *(Pesos)*	Available-for-sale financial assets reserves *(Pesos)*	Retained earnings *(Pesos)*	Total *(Pesos)*
At 1 January 2004		22,990,300	1,030,989	–	645,941,975	669,963,264
Profit for the year		–	–	–	64,462	64,462
At 31 December 2004		22,990,300	1,030,989	–	646,006,437	670,027,726
At 1 January 2005						
As reported		22,990,300	1,030,989	–	646,006,437	670,027,726
Opening adjustment upon adoption of HKAS 39	*1.2*	–	–	34,747,331,656	–	34,747,331,656
As restated		22,990,300	1,030,989	34,747,331,656	646,006,437	35,417,359,382
Changes in fair value of available-for-sale financial assets		–	–	12,366,274,925	–	12,366,274,925
Profit for the year		–	–	–	1,457,774,565	1,457,774,565
Dividends	*9*	–	–	–	(1,457,918,728)	(1,457,918,728)
At 31 December 2005 and 1 January 2006		22,990,300	1,030,989	47,113,606,581	645,862,274	47,783,490,144
Changes in fair value of available-for-sale financial assets		–	–	18,614,498,045	–	18,614,498,045
Profit for the year		–	–	–	2,028,016,330	2,028,016,330
Dividends	*9*	–	–	–	(2,020,672,514)	(2,020,672,514)
At 31 December 2006		22,990,300	1,030,989	65,728,104,626	653,206,090	66,405,332,005

See accompanying Notes to the Financial Information.

Cash Flow Statements

	Years ended 31 December		
	2006	**2005**	**2004**
	(Pesos)	*(Pesos)*	*(Pesos)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year	2,028,016,330	1,457,774,565	64,462
Adjustments for:			
Interest income	(580,956)	(559,531)	(537,467)
Dividend income	(2,030,672,514)	(1,457,918,728)	–
Provision for unrecoverable prepaid tax	–	168,486	–
	(3,237,140)	(535,208)	(473,005)
(Decrease)/increase in accruals and other payables	(22,267,422)	22,324,206	358,933
Net cash (outflow)/inflow from operating activities	(25,504,562)	21,788,998	(114,072)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	584,224	572,621	537,367
Dividend received	2,030,672,514	1,457,918,728	–
Net cash inflow from investing activities	2,031,256,738	1,458,491,349	537,367
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	(2,020,672,514)	(1,457,918,728)	–
NET(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(14,920,338)	22,361,619	423,295
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	34,163,356	11,801,737	11,378,442
CASH AND CASH EQUIVALENTS AT END OF YEAR	19,243,018	34,163,356	11,801,737

See accompanying Notes to the Financial Information.

Notes to Financial Information

1.1 BASIS OF PRESENTATION

The Financial Information has been prepared in accordance with HKFRSs (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for available-for-sale financial assets which have been measured at fair value. These financial statements are presented in Philippine Pesos.

1.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect PTIC and are adopted for the first time for its financial statements for the year ended 31 December 2005 or the year ended 31 December 2006.

Year ended 31 December 2005

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities

Year ended 31 December 2006

HKAS 39 Amendment	The Fair Value Option

Except for the adoption of HKASs 32 and 39 for the year ended 31 December 2005, the adoption of the above new accounting standards has had no material impact on the accounting policies of PTIC and the methods of computation in PTIC's financial statements.

Adoption of HKASs 32 and 39 in the year ended 31 December 2005

Prior to the year ended 31 December 2005, PTIC classified its investments in listed equity securities, intended to be held for continuing strategic and long term purposes as investment securities, within long term investments, and stated these investments at cost less any impairment losses, on an individual investment basis. When a decline in the fair value of an investment security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss statement to the extent of the amount previously charged.

Upon the adoption of HKASs 32 and 39, these securities are classified as available-for-sale financial assets. Available-for-sale financial assets are those non-derivative investments in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, each available-for-sale financial asset is measured at fair value with gains or losses recognised in a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss statement. Impairment losses on equity instruments classified as available for sale are not reversed through the profit and loss statement.

The carrying amount of PTIC's investment in listed equity securities increased by Pesos 34,747,331,656 which arose as a result of a remeasurement at fair value on 1 January 2005 upon adoption of the new accounting policy. This increase in carrying value had been recognised directly in a separate component of equity (available-for-sale financial assets reserves) of PTIC with no restatement to the comparative amount of the assets in accordance with the transitional provision of HKAS 39.

1.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

PTIC has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the entity's objective, policies and processes for managing capital; quantitative data about what the entity regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the entity's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 10 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 and 1 November 2006, respectively.

PTIC is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on PTIC's results of operations and financial position.

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to PTIC if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, PTIC; (ii) has an interest in PTIC that gives it significant influence over PTIC; or (iii) has joint control over PTIC;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of PTIC or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Investments and other financial assets

Applicable to the year ended 31 December 2004

Long term investments

Long term investments in listed equity securities, intended to be held for a continuing strategic and long term purposes, are stated at cost less any impairment losses, on an individual investment basis, and classified as investment securities. When a decline in the fair value of an investment security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss statement to the extent of the amount previously charged.

Applicable to the years ended 31 December 2005 and 31 December 2006

Financial assets in the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. PTIC considers whether a contract contains an embedded derivative when PTIC first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

PTIC determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that PTIC commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognised in the profit and loss statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the profit and loss statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit and loss statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

PTIC assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the profit and loss statement.

PTIC first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss statement, is transferred from equity to the profit and loss statement. Impairment losses on equity instruments classified as available for sale are not reversed through the profit and loss statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- PTIC retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- PTIC has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where PTIC has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of PTIC's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that PTIC could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of PTIC's continuing involvement is the amount of the transferred asset that PTIC may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of PTIC's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including loans and borrowings, and other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the profit and loss statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit and loss statement.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of PTIC's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to PTIC and when the revenue can be measured reliably, on the following bases:

(a) dividend income, when the shareholders' right to receive payment has been established; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Dividends are simultaneously proposed and declared, because the articles of incorporation of PTIC grant the directors the authority to declare dividends. Consequently, dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Philippine Pesos which is PTIC's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the profit and loss statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying PTIC's accounting policies, management has made estimates and assumptions that affect amounts reported in the financial statements and related notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances. Actual results could differ from such estimates. The management believes the following represents a summary of these significant estimates and judgments and related impacts and associated risks to PTIC's financial statements.

Impairment of financial assets

The carrying value of financial assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount. The computation for the impairment of available-for-sale financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgement.

Deferred tax assets

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that sufficient taxable income will be generated to allow all or part of the deferred income tax assets to be utilised.

3. AUDITORS' REMUNERATION

Auditors' remuneration for the years ended 31 December 2006, 2005 and 2004 amounted to Pesos 200,000, Pesos 250,000 and Pesos 250,000, respectively.

4. TAX

As at 31 December 2006, 2005 and 2004, unused tax losses amounting to Pesos 4,245,353, Pesos 1,482,941 and Pesos 1,609,276, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year incurred	Expiration date	Balance *(Pesos)*
2004	31 December 2007	473,005
2005	31 December 2008	535,208
2006	31 December 2009	3,237,140

Deferred tax asset on unused tax losses was not recognised in the balance sheets as the directors consider that the availability of future taxable profits on which the unused tax losses will be utilised is unpredictable.

A reconciliation between the provision for income tax computed at applicable statutory tax rates (2006 and 2005: 35%; 2004: 32%) to actual provision for income tax is as follows:

	2006 *(Pesos)*	2005 *(Pesos)*	2004 *(Pesos)*
Provision for income tax at the statutory tax rate	709,805,716	473,776,734	20,628
Dividend income not subject to tax	(710,735,380)	(473,823,587)	–
Interest income not subject to tax	(203,335)	(181,847)	(171,990)
Tax losses not recognised	1,132,999	228,700	151,362
	–	–	–

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG TERM INVESTMENTS

	2006 *(Pesos)*	2005 *(Pesos)*	2004 *(Pesos)*
At cost	659,266,024	659,266,024	659,266,024
Unrealised mark-to-market gains	65,728,104,626	47,113,606,581	–
	66,387,370,650	47,772,872,605	659,266,024

PTIC owns 26,034,263 shares of the outstanding common stock of Philippine Long Distance Telephone Company ("PLDT"), equivalent to 13.8%, 14.4% and 15.3% ownership interest as at 31 December 2006, 2005 and 2004, respectively.

The carrying value of PTIC's investment in PLDT's common stock was determined based on the quoted-per-share market values of Pesos 2,550 and Pesos 1,835 as at 31 December 2006 and 2005, respectively.

6. CASH AND CASH EQUIVALENTS

	2006	2005	2004
	(Pesos)	*(Pesos)*	*(Pesos)*
Cash on hand and at banks	887,471	725,471	807,329
Short term deposits	18,355,547	33,437,885	10,994,408
	19,243,018	34,163,356	11,801,737

Cash at banks earns interest at the respective bank deposit rates. Short term deposits are made for varying periods of up to three months depending on the immediate cash requirements of PTIC, and earn interest at the respective short term deposit rates.

The carrying amounts of cash and cash equivalents approximate to their fair values.

7. ACCRUALS AND OTHER PAYABLES

	2006	2005	2004
	(Pesos)	*(Pesos)*	*(Pesos)*
Professional fees	1,040,148	1,440,509	986,708
Withholding taxes payable	–	21,870,456	–
Others	254,632	251,237	251,288
	1,294,780	23,562,202	1,237,996

The carrying amounts of accruals and other payables approximate to their fair values.

8. SHARE CAPITAL

	2006	2005	2004
	(Pesos)	*(Pesos)*	*(Pesos)*
Authorised:			
250,000 ordinary shares of Pesos 100 par value each	25,000,000	25,000,000	25,000,000
Issued and fully paid:			
97,516 ordinary shares of Pesos 100 par value each	9,751,600	9,751,600	9,751,600
Subscribed – 144,033 shares of Pesos 100 par value each (net of subscriptions receivable of Pesos 1,164,600)	13,238,700	13,238,700	13,238,700
	22,990,300	22,990,300	22,990,300

9. RETAINED EARNINGS

Dividend declarations by PTIC to the shareholders in 2006 and 2005 are as follows:

Declaration date	Shares on record as of	Date payable	Dividend per share	Amount
			(Pesos)	*(Peso million)*
28 March 2006	7 April 2006	20 April 2006	3,018	729.0
29 August 2006	21 August 2006	21 September 2006	5,348	1,291.7
Total				2,020.7

Declaration date	Shares on record as of	Date payable	Dividend per share	Amount
			(Pesos)	*(Peso million)*
5 May 2005	31 March 2005	12 May 2005	1,509	364.5
6 June 2005	3 June 2005	14 July 2005	2,263	546.7
6 December 2005	28 November 2005	28 December 2005	2,263	546.7
Total				1,457.9

No dividend was declared by PTIC in 2004.

Under the Philippine Corporation Code (the "Code"), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital, except when justified by any of the reasons mentioned in the Code. The retained earnings are unrestricted for distribution.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

PTIC's principal financial instruments comprise cash and cash equivalents, receivables and available-for-sale financial assets. The main purpose of these financial instruments is to raise financing for PTIC's operations.

The main risks arising from PTIC's financial instruments are credit risk and liquidity risk.

Credit Risk

The credit risk of the financial assets of PTIC, which comprise cash and cash equivalents, arises from default of the counter party. PTIC's policy is to maintain bank accounts primarily with renowned financial institutions.

Liquidity Risk

PTIC seeks to manage its liquid funds through cash planning on a monthly basis. PTIC uses historical figures and experiences, and forecasts based on its collection of funds and disbursements.

Equity Price Risk

Equity price risk is the risk that the fair value of an investment in an equity security may decline. PTIC is exposed to changes in the price of the shares of PLDT and this risk is not hedged.

B. ULTIMATE HOLDING COMPANY

As at 31 December 2006, the directors consider that PTIC's ultimate holding company is First Pacific Company Limited, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of PTIC have been made up in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

ERNST & YOUNG
安永會計師事務所

12 February 2007

The Board of Directors
First Pacific Company Limited
24th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong SAR

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES TO THE DIRECTORS OF FIRST PACIFIC COMPANY LIMITED

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of First Pacific Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed purchase of an additional equity interest of approximately 46% in Philippine Telecommunications Investment Corporation ("PTIC") (the "Acquisition") might have affected the assets and liabilities of the Group, for inclusion as Appendix III to the circular of the Company dated 12 February 2007 (the "Circular"). The basis of presentation of the Unaudited Pro Forma Financial Information is set out on pages 147 to 149 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future dates.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is a summary of the unaudited pro forma statement of assets and liabilities of the enlarged Group, which has been prepared on the basis of the notes set out below and assuming that the Acquisition had been completed as at 31 December 2005 for the purpose of illustrating how the transactions might have affected the financial position of the Group at that date.

The unaudited pro forma statement of assets and liabilities of the enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2005 as extracted from the annual report of the Company for the year then ended and the audited balance sheet of PTIC as at 31 December 2005 as extracted from the Accountants' Report set out in Appendix II of this Circular and adjusted for the Acquisition.

The unaudited pro forma statement of assets and liabilities is prepared to provide financial information on the enlarged Group as a result of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the assets and liabilities of the enlarged Group shall be on the actual Acquisition.

	The Group (US$ millions)	PTIC (US$ millions)	Total (US$ millions)	Pro forma adjustments (US$ millions)	The enlarged Group (US$ millions)
Non-current assets					
Property and equipment	622.9	–	622.9	–	622.9
Plantations	169.0	–	169.0	–	169.0
Associated companies	381.7	–	381.7	510.6 (2)	892.3
Accounts receivable, other receivables and prepayments	11.7	–	11.7	–	11.7
Goodwill	32.7	–	32.7	–	32.7
Prepaid land premiums	34.5	–	34.5	–	34.5
Available-for-sale assets	2.7	899.9	902.6	(899.9)(2)	2.7
Deferred tax assets	15.4	–	15.4	–	15.4
Other non-current assets	130.8	–	130.8	–	130.8
	1,401.4	899.9	2,301.3	(389.3)	1,912.0
Current assets					
Cash and cash equivalents	296.0	0.6	296.6	(91.2)(1)(3)	205.4
Restricted cash	4.7	–	4.7	–	4.7
Available-for-sale assets	52.4	–	52.4	–	52.4
Accounts receivable, other receivables and prepayments	286.7	–	286.7	–	286.7
Inventories	303.0	–	303.0	–	303.0
Non-current assets held for sale	2.9	–	2.9	–	2.9
	945.7	0.6	946.3	(91.2)	855.1
Current liabilities					
Accounts payable, other payables and accruals	278.6	0.4	279.0	(0.4)(3)	278.6
Short term borrowings	345.0	–	345.0	150.0 (1)	495.0
Provision for taxation	11.2	–	11.2	–	11.2
Current portion of deferred liabilities and provisions	15.3	–	15.3	–	15.3
	650.1	0.4	650.5	149.6	800.1
Net current assets	295.6	0.2	295.8	(240.8)	55.0
Total assets less current liabilities	1,697.0	900.1	2,597.1	(630.1)	1,967.0
Non-current liabilities					
Long term borrowings	744.2	–	744.2	270.0 (1)	1,014.2
Deferred liabilities and provisions	92.7	–	92.7	–	92.7
Deferred tax liabilities	114.1	–	114.1	–	114.1
Derivative liability	39.3	–	39.3	–	39.3
	990.3	–	990.3	270.0	1,260.3
Minority interest	323.9	–	323.9	(0.1)(3)	323.8
Net assets	382.8	900.1	1,282.9	(900.0)	382.9

NOTES TO UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

(1) Adjustments to reflect a long term debt financing of approximately US$270 million and a short term debt financing of approximately US$150 million to partially finance the consideration for the Acquisition of US$510.6 million, and the funding by the internal resources of the Group for the remaining consideration of US$90.6 million.

(2) Adjustments to reverse the available-for-sale financial assets (investment in shares of Philippine Long Distance Telephone Company ("PLDT")) recorded by PTIC and to reflect the corresponding increase in the effective interest of the enlarged Group in PLDT, an associated company of the Group.

(3) Adjustments to eliminate all other assets and liabilities of PTIC which had already been consolidated into the unadjusted financial information of the Group as at 31 December 2005 and to reflect the increase in the interest of the enlarged Group in PTIC from approximately 54% to 100%.

(4) The statement of assets and liabilities of PTIC has been translated for presentation in US$ at an exchange rate of Pesos 53.085 = US$1.00.

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(a) Long positions in shares in the Company

Name	Ordinary Shares	Approximate percentage of issued share capital *(%)*	Ordinary share options
Anthoni Salim	1,418,525,963[(c)(i)]	44.26	–
Manuel V. Pangilinan	6,026,759[(p)]	0.19	31,800,000
Edward A. Tortorici	27,252,131[(p)]	0.85	17,680,000
Robert C. Nicholson	–	–	24,500,000
Ambassador Albert F. del Rosario	–	–	2,840,000
Benny S. Santoso	–	–	2,840,000
Graham L. Pickles	–	–	1,000,000
Edward K. Y. Chen, *GBS, CBE, JP*	–	–	2,840,000

(i) Anthoni Salim owns 100 per cent of First Pacific Investments (BVI) Limited which, in turn, is interested in 628,296,599 ordinary shares in the Company. Of this 33.334 per cent is held by Anthoni Salim directly, and 66.666 per cent by Salerni International Limited (a company in which Anthoni Salim directly holds 100 per cent of the issued share capital). Anthoni Salim also owns 56.8 per cent of First Pacific Investments Limited which, in turn, is interested in 790,229,364 ordinary shares in the Company. Of this 10 per cent is held by Anthoni Salim directly and 46.8 per cent by Salerni International Limited.

The remaining 43.2 per cent interest in First Pacific Investments Limited is owned as to 30 per cent by Sutanto Djuhar, 10 per cent by Tedy Djuhar and 3.2 per cent by Ibrahim Risjad, all of whom are non-executive Directors of the Company.

(b) Long positions in shares in associated corporations

- Manuel V. Pangilinan owned 1,048,404 common shares(p) in MPIC, 201,933 common shares(p) in PLDT and 360 preferred shares(p) in PLDT as beneficial owner and a further 15,417 common shares in PLDT as nominee for another person, as well as 3,500,000 common shares(p) in Pilipino Telephone Corporation.

- Edward A Tortorici owned 17,399 common shares(c) and 165,000 common shares(p) in MPIC, as well as 52,197 warrants(c) and 495,000 warrants(p) in MPIC and 104,874 common shares(p) in PLDT.

- Sutanto Djuhar owned 15,520,335 ordinary shares(c) in Indofood.

- Tedy Djuhar owned 15,520,335 ordinary shares(c) in Indofood.

- Ibrahim Risjad owned 6,406,180 ordinary shares(c) in Indofood.

- Anthoni Salim owned 632,370 ordinary shares(c) in Indofood.

- Albert F. del Rosario owned 100,025 common shares(p) in PLDT, 1,560 preferred shares(p) in PLDT, 32,231,970 preferred shares(p) in Prime Media Holdings, Inc. (PMH) as nominee for another person, 4 common shares(p) in PMH as beneficial owner, 100 common shares(p) in Negros Navigation Co., Inc., 4,922 common shares(p) in Costa de Madera Corporation, 19,999 common shares(p) in FPD Savills Consultancy Philippines, Inc. as beneficial owner and one common share(p) in FPD Savills Consultancy Philippines, Inc. as beneficiary of certain trusts, 15,000 common shares(p) in Metro Pacific Land Holdings Inc., and 80,000 common shares(p) in Metro Strategic Infrastructure Holdings, Inc.

(p) = Personal interest, (c) = Corporate interest

As at the Latest Practicable Date, save as disclosed above, none of the Directors and chief executive of the Company were interested, or were deemed to be interested, in the long and short positions in the shares, underlying shares or equity derivatives and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(ii) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, the following parties, other than a Director or chief executive of the Company, have an interest or short position in the shares of the Company and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(a) Salerni International Limited (Salerni), which was incorporated in the British Virgin Islands, is interested in 1,418,525,963 ordinary shares of the Company (long position) as at the Latest Practicable Date, representing approximately 44.26 per cent of the Company's issued share capital, by way of its 46.8 per cent interest in First Pacific Investments Limited (FPIL-Liberia) and its 66.666 per cent interest in First Pacific Investments (B.V.I.) Limited (FPIL-BVI).

(b) FPIL-Liberia, which was incorporated in the Republic of Liberia, beneficially owned 790,229,364 ordinary shares as at the Latest Practicable Date, representing approximately 24.66 per cent of the Company's issued share capital. FPIL-Liberia is owned by the Chairman (Anthoni Salim) and three non-executive Directors (Sutanto Djuhar, Tedy Djuhar and Ibrahim Risjad), in the proportion specified in footnote (i) of the table on page 151 of this Circular. Anthoni Salim is taken to be interested in the shares owned by FPIL-Liberia.

(c) FPIL-BVI, which was incorporated in the British Virgin Islands, beneficially owned 628,296,599 ordinary shares as at the Latest Practicable Date, representing approximately 19.60 per cent of the Company's issued share capital. Anthoni Salim, the Chairman of the Company, beneficially owns the entire issued share capital of FPIL-BVI and, accordingly, is taken to be interested in the shares owned by FPIL-BVI.

(d) Brandes Investment Partners, L.P. (Brandes), a U.S. company, notified the Company that it held 316,459,252 ordinary shares of the Company in February 2007, representing approximately 9.87 per cent of the Company's current issued share capital. At the Latest Practicable Date, the Company has not received any other notification from Brandes of any change to such holding.

(e) Marathon Asset Management Limited (Marathon), a U.K. incorporated company, notified the Company that it held 204,709,173 ordinary shares of the Company in November 2005, representing approximately 6.39 per cent of the Company's current issued share capital. At the Latest Practicable Date, the Company has not received any other notification from Marathon of any change to such holding.

3. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within two years preceding the date of this Circular which are or may be material:–

(a) the Share Purchase Agreement dated 9 November 2005 and entered into between Cirio Finanziaria S.p.A. in Amministrazione Straordinaria, Del Monte Holdings Limited (as the Seller) and the Company, in respect of the acquisition of the 428,570,000 Del Monte Shares by the Company or a wholly-owned subsidiary (the proposed acquisition did not proceed to completion as the pre-emption condition was not satisfied);

(b) the Co-operation Agreement dated 31 January 2006 by and among PLDT, the Company, MPC, Metro Asia Link Holdings, Inc., Metro Pacific Resources, Inc., Larouge B.V., MPAH, NTT Communications Corporation and NTT Docomo, Inc.;

(c) the Sale and Purchase Agreement dated 23 August 2006 between Indofood, ISG Asia Limited, Yeunh Oi Siong and Kumpulan Cityaxis Sdn. Bhd. pursuant to which IndoAgri and ISG Asia Limited agreed to purchase from Indofood Singapore Holdings Pte. Ltd. ("**ISHPL**") and Indofood agreed to procure the sale by ISHPL of the entire issued share capital of Indofood Oil & Fats Pte. Ltd.;

(d) the Deed of Ratification and Accession dated 11 September 2006 by ISHPL in favour of Indofood, ISG Asia Limited and Yeunh Oi Siong and Kumpulan CityAxis Sdn. Bhd relating to the Sale and Purchase Agreement dated 23 August 2006 referred to above; and

(e) the placement agreement dated 7 February 2007 by IndoAgri with CIMB-GK Securities Pte. Ltd., Credit Suisse (Singapore) Limited and Kim Eng Securities Pte. Ltd. in relation to the placement by IndoAgri of up to 338,000,000 new consolidated shares of IndoAgri.

4. SERVICE CONTRACT

Mr. Tortorici has a service contract with the Company expiring on 31 December 2007. The amount of fixed remuneration payable under the contract, excluding arrangements for pension payments, is currently US$1,035,000 per annum, payable in arrears over 12 months at the rate of US$86,250 per month.

The amounts of any variable remuneration payable under the contract include annual discretionary bonus equal to 0% to 50% of the base annual fee, participation in the share option scheme of the Company adopted on 24 May 2004, as well as any other perquisites and benefits customarily provided to senior executive officers of the Company. Upon the expiration of Mr. Tortorici's employment, he will be granted an augmented retirement benefit calculated based on two months' pay for every completed year of full time service to the Company, starting from August 1987.

Other than as described above, no Director has an unexpired contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates have a controlling interest in a business which competes either directly or indirectly with the business of the Company.

There are no contracts or arrangements subsisting as at the Latest Practicable Date in which a Director is materially interested or which is significant in relation to the business of the Group.

As at the Latest Practicable Date, no Director has any interest, direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group.

7. PROCEDURE FOR DEMANDING A POLL

In accordance with bye-law 79 of the Company's Bye-Laws, a poll may be demanded by:

(i) the chairman; or

(ii) at least three (3) members present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

As noted above, the resolution to be proposed will, in any event, be taken on a poll as required under the Listing Rules.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

(a) The following are the qualifications of the experts who have given opinions or advice contained in this Circular:

Name	Qualification
Somerley Limited	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Ernst & Young	Certified public accountants

(b) As at the Latest Practicable Date, Somerley and Ernst & Young have no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member in the Group.

(c) Each of Somerley and Ernst & Young has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and references to its name in the form and context in which they appear respectively.

9. MISCELLANEOUS

(a) The Company Secretary of the Company is Ms. Nancy Li, MSc (Corporate Governance and Directorship), BA, FCS (PE), FCIS.

(b) The qualified accountant of the Company is Richard L. Beacher, BA(Hon) in Economics and Accounting, FCCA, CPA.

(c) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda, and the head office is at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR.

(d) The principal share registrar and transfer office is Butterfield Fund Services (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke, HM08, Bermuda.

(e) The share registrar and transfer office (Hong Kong Branch) is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong SAR.

(f) The English text of this Circular shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office in Hong Kong of the Company on any week day (except public holidays) up to and including Wednesday, 28 February 2007:–

(a) the letter from the Board, the text of which is set out on pages 4 to 10 of this Circular;

(b) the letter from the Independent Board Committee, the text of which is set out on page 11 of this Circular;

(c) the letter from Somerley, the Independent Financial Adviser, the text of which is set out on pages 12 to 25 of this Circular;

(d) the written consents referred to in the paragraph headed "Qualifications and Consents of Experts" in this Appendix;

(e) the report on PTIC, the text of which is set out in Appendix II, together with the statement of adjustments showing adjustments made to the audited financial statements of PTIC;

(f) the report on the pro forma financial information of the enlarged Group after the Acquisition, the text of which is set out in Appendix III;

(g) the memorandum of association and bye-laws of the Company;

(h) the annual reports of the Company for the years ended 31 December, 2005 and 31 December, 2004;

(i) the interim report of the Company for the six months ended 30 June, 2006;

(j) the material contracts referred to in paragraph 3 above;

(k) this Circular;

(l) the service contract of Mr. Tortorici;

(m) any contracts referred to in this Circular; and

(n) the following documents issued by the Company pursuant to the requirements set out under Chapter 14 and/or 14A of the Listing Rules since 31 December 2005 being the date of which the latest published audited consolidated financial statements of the Group were made up:

   (i) a discloseable transaction circular dated 8 February 2006 containing, inter alia, certain information regarding an acquisition by the Company of an aggregate of 2,714,537 shares of PLDT;

   (ii) an offer document dated 12 May 2006 containing, inter alia, certain information regarding a mandatory conditional cash offer by CIMB-GK Securities (HK) Limited on behalf of Salerni International Limited to acquire all the issued shares in the capital of, and to cancel all outstanding options of, the Company (other than those shares already beneficially owned by Salerni International Limited and parties acting in concert with it);

   (iii) a continuing connected transactions circular dated 22 May 2006 containing, inter alia, certain information regarding each of the continuing connected transactions relating to the noodles business of Indofood and its subsidiaries and the notice of a special general meeting held on 14 June 2006;

   (iv) a circular dated 22 December 2006 containing, inter alia, certain information regarding a material dilution of interest in a major subsidiary resulting from the proposed separate listing of a subsidiary of Indofood on the mainboard of the Singapore Stock Exchange by means of reverse takeover of, and placement of shares in, IndoAgri (formerly known as

"CityAxis Holdings Limited" and "ISG Asia Limited") and the notice of a special general meeting held on 8 January 2007; and

(v) a discloseable transaction circular dated 27 December 2006 containing, inter alia, certain information regarding the acquisition of an interest by MPIC in Maynilad.

FIRST PACIFIC COMPANY LIMITED

(Incorporated with limited liability under the laws of Bermuda)
Website: http://www.firstpacco.com
(Stock Code: 00142)

NOTICE IS HEREBY GIVEN that a special general meeting of First Pacific Company Limited ("the **Company**") will be held at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR on Wednesday, 28 February 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modification) the following resolution as an ordinary resolution:–

"**THAT:–**

(a) the acquisition of 111,415 issued common shares ("**Sale Shares**") of Philippine Telecommunications Investment Corporation ("**PTIC**"), representing approximately 46% of the issued common shares in PTIC by the Company and/or any subsidiary(ies) of the Company and the entry into by the Company and/or any subsidiary(ies) of the Company of any and all documents considered by the directors of the Company to be necessary or desirable to be entered into in connection with the purchase of the Sale Shares (including but not limited to a sale and purchase agreement ("**Sale and Purchase Agreement**") proposed to be entered into between Metro Pacific Assets Holdings, Inc. ("**MPAH**"), a subsidiary of the Company, and the Philippine Government (and/or its agencies, instrumentalities and/or bodies corporate) for the sale of the Sale Shares by the Philippine Government (and/or its agencies, instrumentalities and/or bodies corporate) to MPAH and an escrow agreement ("**Escrow Agreement**") proposed to be entered into between the Philippine Government (and/or its agencies, instrumentalities and/or bodies corporate), MPAH, and the Company, amongst others, for the holding of one half of the purchase price for the Sale Shares in escrow pending completion of the Sale and Purchase Agreement, be and are each hereby approved; and

(b) any executive director of the Company be and is hereby authorise to arrange for the execution of such documents (including but not limited to the Sale and Purchase Agreement and the Escrow Agreement) in such manner as he may consider necessary or desirable and to do, or authorise the Company and/or any subsidiary(ies) to do, whatever acts and things he may consider necessary or desirable or expedient for the purpose of, or in connection with, the implementation of the purchase of the Sale Shares and/or the documents referred to above and/or any matter related thereto and to make or agree, or authorise the Company and/or any subsidiary(ies) to make or agree, such amendments or variations thereto, and grant, or authorise the Company and/

or any subsidiary(ies) to grant, any waivers of any conditions precedent or other provisions of such documents as any executive director of the Company in his discretion considers to be desirable and in the interests of the Company."

By order of the Board
First Pacific Company Limited
Nancy L.M. Li
Company Secretary

Dated: 12 February 2007

Notes:

1. Any shareholder entitled to attend and vote at the special general meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.

2. A form of voting proxy for the special general meeting is enclosed. In order to be valid, the form of voting proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney or other authority must be deposited at the Company's head office (Attention: Corporate Secretarial Department) at 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong SAR, not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting or any adjourned meeting should they so wish.