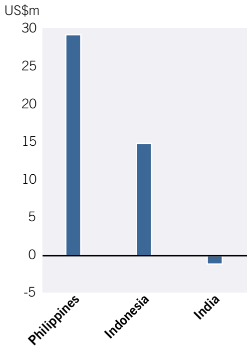
Review of Operations

During the period, the Group's operations improved their profit contribution by 70 per cent to US$43.1 million (1H02: US$25.4 million), while recurring profit improved by 123 per cent to US$34.8 million (1H02: US$15.6 million). Foreign exchange gains of US$1.9 million (1H02: US$11.2 million) were recorded. There follows a contribution summary.

Contribution by country



Contribution summary

Six months ended 30 June US$ millions	Turnover 2003	Turnover 2002	Contribution to Group profit[i] 2003	Contribution to Group profit[i] 2002
PLDT[ii]	–	–	33.7	17.4
Indofood	970.7	836.4	14.9	24.8
Metro Pacific	38.0	62.3	(4.4)	(15.1)
Escotel[ii]	–	–	(1.1)	0.6
From continuing businesses	1,008.7	898.7	43.1	27.7
From a disposed business[iii]	–	0.4	–	(2.3)
FROM OPERATIONS	1,008.7	899.1	43.1	25.4
Corporate overhead			(3.4)	(5.0)
Interest expense			(4.2)	(9.6)
Interest income			2.3	4.8
Other expenses			(3.0)	–
RECURRING PROFIT			34.8	15.6
Foreign exchange gains			1.9	11.2
PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS[iv]			36.7	26.8

(i) After taxation and outside interests, where appropriate.

(ii) Associated companies.

(iii) Represents Infrontier Limited (Infrontier).

(iv) In 1H03, the Group's net non-recurring items were nil, which mainly comprised Metro Pacific's Pesos 0.4 billion (First Pacific's share: US$6.3 million) gains on dacion transactions and PLDT's Pesos 1.4 billion (First Pacific's share: US$6.3 million) manpower reduction costs.

PLDT

Philippine Long Distance Telephone Company (PLDT) a telecommunications provider in the Philippines. Through its three principal business groups – Wireless (principally through wholly-owned subsidiary Smart Communications, Inc. (Smart)); Fixed Line (principally through PLDT); and Information and Communications Technology (principally through wholly-owned subsidiary ePLDT) – PLDT offers a wide range of telecommunications services across the Philippine's most extensive fiber optic backbone, cellular, fixed line, Internet and satellite networks.

PLDT's operations are principally denominated in pesos, which averaged Pesos 53.58 (1H02: Pesos 50.72) to the U.S. dollar. Its financial results are prepared under Philippine GAAP and reported in pesos. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollars. Accordingly, certain adjustments are made to PLDT's reported peso results to ensure compliance with Hong Kong GAAP. An analysis of such adjustments follows.

Pesos millions	2003	2002
Net income under Philippine GAAP[(i)]	1,780	2,708
Preference dividends[(ii)]	(785)	(813)
Net income attributable to common shareholders	995	1,895
Differing accounting treatments[(iii)]		
– Reclassification/reversal of non-recurring items	5,174	–
– Foreign exchange accounting	835	2,852
– Fair values on acquisition	–	1,400
– Piltel losses	(535)	(1,230)
– Others	381	218
Intragroup items[(iv)]	140	140
Adjusted net income under Hong Kong GAAP	6,990	5,275
Foreign exchange[(v)]	434	(1,652)
PLDT's net income as reported by First Pacific	7,424	3,623

US$ millions		
Net income at prevailing average rates for 2003: Pesos 53.58 and 2002: Pesos 50.72	138.6	71.4
Contribution to First Pacific Group profit, at an average shareholding of 2003: 24.3% and 2002: 24.4%	33.7	17.4

(i) PLDT has restated its net income for 1H02 from Pesos 2,755 million to Pesos 2,708 million after changing the revenue recognition policy for prepaid cards from sale to usage. As First Pacific has already adjusted for this in prior year's GAAP adjustments, no further adjustment is required.

(ii) First Pacific presents net income after deduction of preference dividends.

(iii) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP. The principal adjustments include:

- *Reclassification/reversal of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items. In order to illustrate underlying recurring operational results, such items are reallocated and presented separately. Adjustments for 1H03 of Pesos 5.2 billion principally relate to impairment provisions for satellite and other assets (Pesos 3.8 billion), which were fully provided by First Pacific in prior years, and manpower reduction costs (Pesos 1.4 billion).*
- *Foreign exchange accounting: Under Philippine GAAP, PLDT is permitted to capitalize and amortize exchange differences. Hong Kong GAAP requires the recognition of such differences, even though unrealized, in the profit and loss statement. The adjustment reverses the amortization of PLDT's capitalized foreign exchange differences, as the originating exchange difference has already been written off by First Pacific.*
- *Fair values on acquisition: First Pacific made certain fair value adjustments at the time of its acquisition of PLDT, such that certain PLDT assets are held at different values in First Pacific's accounts. Accordingly, the adjustment reverses the depreciation on assets that First Pacific has already written down. Such assets were fully depreciated by PLDT in 2002.*

(iv) These are standard consolidation adjustments to ensure that transactions between Group companies are eliminated to present the Group as a single economic entity.

(v) To illustrate underlying operational results and profit contributions, exchange differences (net of related tax) are excluded and presented separately.

PLDT contributed a profit of US$33.7 million (1H02: US$17.4 million) to the Group, reflecting:

- strong growth in Wireless, principally Smart's revenues growing to Pesos 22.1 billion (US$412.5 million) (1H02: Pesos 14.5 billion; US$285.9 million) as its GSM subscribers reached 8.1 million (1H02: 5.3 million) and ARPU's remained healthy at about Pesos 563 (US$10.5) (1H02: Pesos 604; US$11.9). Smart continued to drive down subscriber acquisition costs to Pesos 1,075 (US$20.1) (1H02: Pesos 1,464; US$28.9) allowing its payback period for prepaid subscribers to improve to 1.3 months (1H02: 2.4 months) based on current ARPU levels;
- stable Fixed Line revenues at Pesos 22.9 billion (US$427.4 million) (1H02: Pesos 22.7 billion; US$447.6 million) and improved the ratio of fixed lines per employee to 200 as of 15 July 2003 (1H02: 165) as a result of PLDT's implementation of its manpower reduction programme;
- increased revenues contribution from Information and Communications Technology as ePLDT's revenues grew to Pesos 863 million (US$16.1 million) (1H02: Pesos 396 million; US$7.8 million), but continued to incur losses reflecting the start-up nature of this business; and
- significant improvement in consolidated free cash flow in 1H03 to Pesos 9.4 billion (US$175.5 million) (1H02: Pesos 4.2 billion; US$82.8 million) and was utilized by PLDT Fixed Line and Smart to reduce debt by Pesos 5.6 billion (US$104.5 million) and Pesos 3.2 billion (US$59.7 million), respectively.

Indofood

PT Indofood Sukses Makmur Tbk (Indofood) is the leading processed-foods group in Indonesia. Noodles, Flour and Edible Oils & Fats are the principal businesses of Indofood. It also has interests in Distribution, Food Seasonings, Baby Foods and Snack Foods businesses.

Indofood's operations are principally denominated in rupiah, which averaged Rupiah 8,674 (1H02: Rupiah 9,505) to the U.S. dollar. Its financial results are prepared under Indonesian GAAP and reported in rupiah. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollars. Accordingly, certain adjustments are made to Indofood's reported rupiah results to ensure compliance with Hong Kong GAAP. An analysis of such adjustments follows.

Rupiah billions	2003	2002
Net income under Indonesian GAAP	309	571
Differing accounting treatments[i]		
– Foreign exchange accounting	27	27
– Others	(35)	103
Adjusted net income under Hong Kong GAAP	301	701
Foreign exchange[ii]	(51)	(222)
Indofood's net income as reported by First Pacific	250	479

US$ millions		
Net income at prevailing average rates for 2003: Rupiah 8,674 and 2002: Rupiah 9,505	28.8	50.4
Contribution to First Pacific Group profit, at an average shareholding of 2003: 51.9% and 2002: 49.2%	14.9	24.8

(i) Differences in accounting treatment under Indonesian GAAP, compared with Hong Kong GAAP. The principal adjustments include:

- *Foreign exchange accounting: The adjustment relates to the reversal of the amortization of foreign exchange losses that were previously capitalized by Indofood on certain fixed assets under construction.*
- *Others: 1H03 includes Rupiah 24.2 billion write-off of capitalized bonds issuance costs. 1H02 includes a reversal of Rupiah 82.3 billion of over-accrued pension costs in prior years.*

(ii) To illustrate underlying operational results and profit contributions, exchange differences (net of related tax) are excluded and presented separately.

Indofood contributed a profit of US$14.9 million (1H02: US$24.8 million) to the Group, reflecting:

- a moderate increase in sales revenues principally as a result of increased average selling prices of three principal businesses – Noodles, Flour, and Edible Oils & Fats;
- Indofood's rupiah gross profit increased 4.5 per cent to Rupiah 2.0 trillion (US$230.3 million), and the rupiah gross margin for the period was 23.7 per cent (1H02: 23.6 per cent);
- increased costs for fuel, and selling and promotion activities. Indofood's rupiah operating margin for the period was 10.3 per cent (1H02: 10.9 per cent);
- increased interest costs in rupiah terms due to the higher average net debt level as a result of increased borrowings for working capital and capital expenditure requirements; and
- during the first half of 2003, Indofood issued a Rupiah 1.5 trillion (US$181.1 million) five-year Rupiah-bonds to repay certain debts with high interest costs, which include Rupiah 1.2 trillion (US$143.4 million) and US$37.7 million over the period. The Financial Review section contains further information on Indofood's net debt.

As of 30 June 2003, Indofood completed 75 per cent of its employee stock ownership programme (ESOP). It had issued 228.9 million new shares in May 2002 for Phase I and 58.4 million new shares in May 2003 for Phase II. The ESOP covers 457.8 million shares, representing five per cent of Indofood's issued and paid-up capital when the programme was approved in May 2001. The implementation of the third phase, representing the remaining 25 per cent of the programme, will be completed in May 2004.

Metro Pacific

Metro Pacific Corporation (Metro Pacific) is based and listed in Manila. Its property businesses include Landco Pacific Corporation (Landco), Pacific Plaza Towers (PPT) and Costa de Madera Inc., while its transportation business includes listed shipping subsidiary Negros Navigation Company (Nenaco).

Metro Pacific's operations are principally denominated in pesos, which averaged Pesos 53.58 (1H02: Pesos 50.72) to the U.S. dollar. Its financial results are prepared under Philippine GAAP and reported in pesos. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollars. Accordingly, certain adjustments are made to Metro Pacific's reported peso results to ensure compliance with Hong Kong GAAP. An analysis of such adjustments follows.

Pesos millions	2003	2002
Net profit/(loss) under Philippine GAAP	94	(8,076)
Differing accounting treatments(i)		
– Reclassification/reversal of non-recurring items	(421)	7,188
– Others	19	45
Adjusted net loss under Hong Kong GAAP	(308)	(843)
Foreign exchange(ii)	13	(105)
Metro Pacific's net loss as reported by First Pacific	(295)	(948)

US$ millions		
Net loss at prevailing average rates for 2003: Pesos 53.58 and 2002: Pesos 50.72	(5.5)	(18.7)
Contribution to First Pacific Group profit, at an average shareholding of 2003: 80.6% and 2002: 80.6%	(4.4)	(15.1)

(i) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP. The principal adjustment is:

- *Reclassification/reversal of non-recurring items: Certain items, through occurrence or size, are not consider usual, operating items. In order to illustrate underlying recurring operational results, such items are reallocated and presented separately. Adjustments for 1H03 of Pesos 0.4 billion principally relate to gains on dacion transactions. Adjustment for 1H02 to reverse Metro Pacific's impairment provision of Pesos 7.2 billion in respect of its investment in BLC. First Pacific has, through its 2001 impairment provisions, already fully provided against this asset.*

(ii) To illustrate underlying operational results and profit contributions, exchange differences (net of related tax) are excluded and presented separately.

Metro Pacific contributed a reduced loss of US$4.4 million (1H02: US$15.1 million) to the Group, reflecting a significant decline in borrowing costs. By 30 June 2003, Metro Pacific had successfully repaid, reached agreements in principle or advanced discussions for 92.2 per cent, or Pesos 11.9 billion (US$221.6 million), of the total outstanding debts of Pesos 12.9 billion (US$240.2 million) at parent company level. Metro Pacific continues its effort on debt restructuring and improving the operations of Landco, PPT and Nenaco.

Escotel

Escotel Mobile Communications Limited (Escotel) is a GSM cellular telephone services provider based in New Delhi that commenced operations in 1996. Escotel operates in three circles: Uttar Pradesh (West), Haryana and Kerala.

Escotel's operations are principally denominated in rupees, which averaged Rupees 47.29 (1H02: Rupees 48.81) to the U.S. dollar.

Escotel contributed a loss of US$1.1 million (1H02: profit of US$0.6 million) to the Group as a result of intensified competition from new operators, and pressure on tariffs due to introduction by the regulators of new caller party pay tariff regime. A five per cent increase in the subscriber base to 600,000 subscribers during the period was offset by the decline in ARPU to Rupees 361 (US$7.6) from Rupees 508 (US$10.4). The network expansion programme enlarges Escotel's network capacity to 1.3 million subscribers.