

Notes to the Condensed Interim Financial Statements

1. Basis of preparation

The Condensed Interim Financial Statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (SSAP) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (HKSA) and the disclosure requirements of the Rules Governing the Listing of Securities (the Listing Rules) on The Stock Exchange of Hong Kong Limited (the Stock Exchange). The Condensed Interim Financial Statements are prepared on a basis consistent with the accounting policies adopted in the Group’s 2002 audited Financial Statements except that the Group has changed its accounting policy in respect of deferred taxation following its adoption of the revised SSAP 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on, or after, 1 January 2003. The revised SSAP 12 prescribes the accounting treatment for income taxes and requires the recognition of deferred tax liability for all taxable temporary differences, with limited exceptions; and deferred tax asset for deductible temporary differences if it is probable that a tax benefit will be realized. The adoption of the revised SSAP 12 has no significant effect on the Group’s results or shareholders’ deficit.

The Condensed Interim Financial Statements are unaudited but have been reviewed by the Audit Committee and the Group’s external auditors.

2. Segmental information

Segmental information, relating to the Group’s principal business activities and geographical markets, follows. Analysis by business activities is the Group’s primary reporting format as this is more relevant to the Group when making operational and financial decisions.

By principal business activities – 2003

Six months ended 30 June US\$ millions	Telecom- munications	Consumer Food Products	Property and Transportation	Head Office	2003 Total
PROFIT AND LOSS					
Segment revenue – turnover	–	970.7	38.0	–	1,008.7
Segment results/operating profit	–	105.2	34.0	(19.9)	119.3
Share of profits less losses of associated companies	18.1	(0.2)	21.0	–	38.9
Net borrowing costs					(60.1)
Profit before taxation					98.1
Taxation					(20.9)
Profit after taxation					77.2
Outside interests					(40.5)
Profit attributable to ordinary shareholders					36.7
OTHER INFORMATION					
Capital expenditure	–	35.8	2.5	–	38.3
Depreciation and amortization	–	25.9	1.4	–	27.3
Other non-cash expenses	–	2.2	–	–	2.2

By principal geographical markets – 2003

Six months ended 30 June US\$ millions	Philippines	Indonesia	2003 Total
Turnover	38.0	970.7	1,008.7
Capital expenditure	2.5	35.8	38.3

By principal business activities – 2002

Six months ended 30 June US\$ millions	Telecom- munications	Consumer Food Products	Property and Transportation	Discontinued operation ⁽ⁱ⁾	Head Office	2002 Total
PROFIT AND LOSS						
Segment revenue – turnover	–	836.4	62.3	0.4	–	899.1
Segment results/operating profit	–	131.6	25.3	(2.3)	(17.2)	137.4
Share of profits less losses of associated companies	20.6	0.1	(9.7)	–	–	11.0
Net borrowing costs						(51.1)
Profit before taxation						97.3
Taxation						(38.0)
Profit after taxation						59.3
Outside interests						(32.5)
Profit attributable to ordinary shareholders						26.8
OTHER INFORMATION						
Capital expenditure	–	45.3	17.8	–	–	63.1
Depreciation	–	22.6	4.2	–	–	26.8
Other non-cash expenses	–	1.9	–	–	–	1.9

By principal geographical markets – 2002

Six months ended 30 June US\$ millions	Philippines	Indonesia	Discontinued operation ⁽ⁱ⁾	2002 Total
Turnover	62.3	836.4	0.4	899.1
Capital expenditure	17.8	45.3	–	63.1

(i) Represents Infrontier.

3. Operating profit

Six months ended 30 June US\$ millions	2003	2002
OPERATING PROFIT IS STATED AFTER (CHARGING)/CREDITING		
Cost of inventories sold	(614.6)	(554.6)
Depreciation	(26.8)	(26.8)
Losses on dilution of interests in a subsidiary and an associated company	(3.2)	(0.6)
Doubtful debt provisions	(2.2)	(1.9)
Loss on sale of property and equipment	(0.9)	(0.3)
Amortization of goodwill (included in other operating income, net)	(0.5)	–
Net exchange gains on monetary items	9.8	18.7
Unrealized gains on short-term investments	3.3	0.2

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4. Net borrowing costs

Six months ended 30 June US\$ millions	2003	2002
Loan capital		
– wholly repayable within five years	0.8	2.8
– not wholly repayable within five years	–	0.5
Subtotal	0.8	3.3
Bank loans and other loans		
– wholly repayable within five years	68.8	55.3
– not wholly repayable within five years	0.4	2.5
Subtotal	69.2	57.8
TOTAL INTEREST EXPENSE	70.0	61.1
Other borrowing costs		
– Redemption premium on convertible instruments	–	4.2
TOTAL BORROWING COSTS	70.0	65.3
Less borrowing costs capitalized in development properties	–	(2.0)
Less interest income	(9.9)	(12.2)
NET BORROWING COSTS	60.1	51.1

5. Taxation

No Hong Kong profits tax (2002: Nil) has been provided as the Group had no estimated assessable profits (2002: 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 and associated companies operate.

Six months ended 30 June US\$ millions	2003	2002
SUBSIDIARY COMPANIES		
Current taxation – Overseas	15.8	13.0
Deferred taxation – Overseas	(4.1)	15.4
Subtotal	11.7	28.4
ASSOCIATED COMPANIES		
Current taxation – Overseas	5.3	2.2
Deferred taxation – Overseas	3.9	7.4
Subtotal	9.2	9.6
TOTAL	20.9	38.0

The effective tax rate for 2003 was 21.3 per cent (2002: 39.1 per cent). The reduction in effective tax rate was principally due to reduced losses at Metro Pacific.

6. Profit attributable to ordinary shareholders

Profit attributable to ordinary shareholders includes US\$1.9 million (2002: US\$11.2 million) net exchange gains that arose primarily on the translation of the unhedged U.S. dollar denominated borrowings of PLDT and Indofood.

7. Basic earnings per share

Six months ended 30 June	2003	2002
Basic earnings per share is based on		
– profit attributable to ordinary shareholders of (US\$m)	36.7	26.8
– and an average number of shares in issue of (millions)	3,186.0	3,139.8
resulting in basic earnings per share of (U.S. cents)	1.15	0.85

No diluted earnings per share for the six months period ended 30 June 2003 and 2002 have been presented as the outstanding convertible bonds, convertible notes and convertible preferred shares of the Company, a subsidiary and an associated company have anti-dilutive effects on the basic earnings per share for these periods. In addition, no diluting events existed in respect of the outstanding share options of the Company, a subsidiary and an associated company during these periods.

8. Ordinary share dividend

At a meeting held on 18 August 2003, the Directors did not recommend the payment of an interim dividend for 2003 (2002: Nil).

9. Property and equipment

The movements in property and equipment are set out below.

US\$ millions	2003	2002
At 1 January	1,009.3	840.2
Exchange translation	46.8	108.8
Additions	38.3	63.1
Disposals	(1.4)	(17.5)
Disposal of a subsidiary company	(295.7)	–
Depreciation	(26.8)	(26.8)
Reclassifications ⁽ⁱ⁾	(40.5)	67.8
AT 30 JUNE	730.0	1,035.6

(i) Reclassified (to)/from inventories.

10. Associated companies

US\$ millions	At	At
	30 June 2003	31 December 2002
Escotel	(141.7)	(136.4)
PLDT	98.3	80.4
Metro Pacific's associated companies	74.0	28.8
Others	2.6	2.7
TOTAL	33.2	(24.5)

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11. Accounts receivable, other receivables and prepayments

Included in accounts receivable, other receivables and prepayments are trade receivables of US\$184.0 million (31 December 2002: US\$201.1 million), with an ageing profile as below.

US\$ millions	At	At
	30 June 2003	31 December 2002
0 to 30 days	149.0	160.3
31 to 60 days	13.7	11.8
61 to 90 days	4.7	8.3
Over 90 days	16.6	20.7
TOTAL	184.0	201.1

Indofood allows sub-distributors/wholesalers 60 days of credit, and other customers between 15 to 60 days of credit. Metro Pacific collects contract receivables by installments over periods ranging from two and five years.

12. Accounts payable, other payables and accruals

Included in accounts payable, other payables and accruals are trade payables of US\$144.2 million (31 December 2002: US\$175.6 million), with an ageing profile as below.

US\$ millions	At	At
	30 June 2003	31 December 2002
0 to 30 days	117.9	129.0
31 to 60 days	6.2	11.9
61 to 90 days	10.1	25.1
Over 90 days	10.0	9.6
TOTAL	144.2	175.6

13. Deferred liabilities and provisions

US\$ millions	Deferred	Long-term	Pension	Others	2003	2002
	income	payables			Total	Total
At 1 January	37.0	50.0	31.4	43.8	162.2	268.2
Exchange translation	(0.1)	(0.5)	2.4	(0.1)	1.7	8.7
Additions	–	0.4	1.3	17.1	18.8	34.6
Disposal of a subsidiary company	(0.4)	(34.5)	–	–	(34.9)	–
Payment and utilization	(6.7)	(5.4)	–	(20.5)	(32.6)	(139.4)
Subtotal	29.8	10.0	35.1	40.3	115.2	172.1
Less current portion included in accounts payable, other payables and accruals	(1.3)	(5.8)	–	(24.0)	(31.1)	(40.2)
AT 30 JUNE	28.5	4.2	35.1	16.3	84.1	131.9

Deferred income relates to the gross profit arising on property sales.

Long-term payables relate to liabilities for property development.

Pension relates to accrued liabilities in relation to retirement schemes.

Others mainly relates to provisions for severance payments and warranty claims.

14. Notes to the condensed consolidated cash flow statement

(a) Disposal of subsidiary companies

US\$ millions	Bonifacio Land Corporation and its subsidiary companies
NET ASSETS	
Property and equipment	295.7
Associated companies	13.2
Long-term receivable, prepayments and deferred tax assets	69.0
Cash and cash equivalents	14.9
Accounts receivable, other receivables and prepayments	23.1
Inventories	15.1
Accounts payable, other payables and accruals	(58.2)
Due to Group companies	(44.4)
Short-term borrowings	(19.2)
Provision for taxation	(0.2)
Outside interests	(117.1)
Loan capital and long-term borrowings	(51.4)
Deferred liabilities and provisions	(10.9)
Deferred taxation	(4.7)
	124.9
Reclassification to interests in associated companies	(34.7)
NET ASSETS DISPOSED OF	90.2
CONSIDERATION	
Cash and cash equivalents	90.2
TOTAL CONSIDERATION	90.2
NET INFLOW OF CASH AND CASH EQUIVALENTS FOR CONDENSED CONSOLIDATED CASH FLOW STATEMENT	75.3

In April 2003, Metro Pacific's interest in Bonifacio Land Corporation (BLC) declined to 22.5 per cent from 72.9 per cent upon the assignment of 50.4 per cent controlling interest in BLC to settle Metro Pacific's debts as part of its ongoing debt restructuring exercises which were designed to address its liquidity issue. Accordingly, BLC which was previously a subsidiary company of the Group, is now accounted for as an associated company.

(b) Pledged deposits

The Company has pledged bank deposits of US\$2.2 million (31 December 2002: US\$2.3 million) as security for a loan. Indofood's pledged bank deposits totaling Rupiah 184.2 billion (US\$20.6 million) at 31 December 2002 were fully released in January 2003.

(c) Non-cash transaction

During the period, the Metro Pacific group settled Pesos 2.2 billion (US\$41.1 million) of borrowings through the transfer of properties to its creditors.

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15. Commitments and contingent liabilities

(a) Capital expenditure

US\$ millions	At	At
	30 June 2003	31 December 2002
Commitments in respect of subsidiary companies:		
Authorized but not contracted for	21.6	13.6
Contracted but not provided for	31.2	23.9
TOTAL	52.8	37.5

Capital expenditure commitments relate to Indofood (purchase of machinery and equipment) and Metro Pacific (property development obligations).

(b) Contingent liabilities

At 30 June 2003, the Company has a guarantee of US\$88.6 million (31 December 2002: US\$92.6 million) which relates to credit facilities extended to Escotel. The credit facilities are guaranteed by Escotel's shareholders on a pro-rata basis and, thus, represents the Group's 49 per cent share of Escotel's borrowings.

The non-compliance of certain financial ratios under certain of Escotel's loan facilities may provide a basis for the lenders to accelerate the credit facilities which may then enable the lenders to access the guarantees provided by Escotel's shareholders. In the event that such guarantees are called upon by the lenders, they will become unsecured and short-term debts of the Company. However, Escotel's loan principal and interest payments remain current at and subsequent to 30 June 2003.

16. Share options

Particulars of the share options of the Company and its subsidiary companies granted to the Executive Directors, senior executives and former Directors of the Company at 30 June 2003 are set out below.

(a) Particulars of the Company's share option scheme

On 7 February 2003, the Company's Board of Directors approved the cancellation of all outstanding share options of the Company. The share option scheme has also been suspended by the Company, pending amendments to reconcile the scheme's provisions with Chapter 17 of the Listing Rules. As a result, there are no outstanding options under the Company's share option scheme at 30 June 2003.

	Options held at 1 January 2003	Options canceled during the period	Options held at 30 June 2003	Option exercise price (HK\$)	Market price at date of grant (HK\$)	Grant date	Exercisable from	Exercisable until
COMPANY								
EXECUTIVE DIRECTORS								
Manuel V. Pangilinan	12,498,000	(12,498,000)	–	9.47	9.60	19 December 1996	December 1996	December 2006
Edward A. Tortorici	920,000	(920,000)	–	9.22	9.15	16 July 1997	July 1997	July 2007
	5,556,000	(5,556,000)	–	6.72	6.80	25 June 1999	January 2000	June 2009
SENIOR EXECUTIVES	2,844,000	(2,844,000)	–	9.47	9.60	19 December 1996	December 1996 to December 1997	December 2006
	2,936,000	(2,936,000)	–	5.38	2.40-6.80	25 June 1999 to 14 August 2000	June 2000 to August 2001	June 2009
FORMER DIRECTORS	8,110,000	(8,110,000)	–	9.47	9.60	19 December 1996	December 1996	December 2006
	4,508,000	(4,508,000)	–	5.38	6.80	25 June 1999	June 2000	June 2009
TOTAL	37,372,000	(37,372,000)	–					

(b) Particulars of Indofood's share option scheme

	Options held at 1 January 2003	Option granted during the period	Options exercised during the period	Options canceled during the period	Options held at 30 June 2003	Options exercise price (Rupiah)	Market price at date of grant (Rupiah)	Market price at date of exercise (Rupiah)	Grant date	Exercisable from	Exercisable until
INDOFOOD											
SENIOR EXECUTIVES	–	228,900	(116,739)	(112,161)	–	412,500	287,500	400,000	24 February 2003	February 2003	May 2003

In March 2003, 228,900 options under Phase II of Indofood's Employee Stock Ownership Programme (ESOP) were granted and became rights of the qualified employees. Based on the said total number of options under Phase II, a total of 114,450,000 new shares of Indofood are available for subscription by the qualified employees at the exercise price of Rupiah 825 per share. During the period, 58,369,500 shares were issued through the exercise of 116,739 options granted under Phase II of Indofood's ESOP. The remaining 112,161 options were canceled on 15 May 2003 when they expired.

(c) Particulars of Metro Pacific's share option scheme

	Options held at 1 January 2003	Options canceled during the period	Options held at 30 June 2003	Option exercise price (Pesos)	Market price at date of grant (Pesos)	Grant date	Exercisable from	Exercisable until
METRO PACIFIC								
SENIOR EXECUTIVES	9,789,555	–	9,789,555	1.69	1.76	2 November 1993	November 1994	November 2003
	9,808,471	–	9,808,471	1.91	2.37	16 April 1995	April 1996	April 2005
	674,236	–	674,236	4.38	5.19	15 April 1996	April 1997	April 2006
	10,018,750	–	10,018,750	3.46	3.57	1 August 1997	August 1997	August 2007
TOTAL	30,291,012	–	30,291,012					

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

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The Directors are of the view that it is not appropriate to value the share options, on the ground that the value of options granted depends on a number of variables which are either difficult to ascertain or which can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of options will not be meaningful to shareholders.

Save 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 of the Company 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 of the Company or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the period.

17. Connected and related party transactions

Significant related party transactions entered into by the Group during the period, which also constitute connected transactions under the Listing Rules, are disclosed in Notes (a) and (b). Other related party transactions, which do not constitute connected party transactions under the Listing Rules, are disclosed in Notes (c) and (d).

(a) Larouge B.V., a wholly-owned subsidiary of the Company, extended a US\$90.0 million loan to Metro Pacific in April 2001. The loan was secured by a pledge over a 50.4 per cent interest of BLC shares that Metro Pacific owned. The loan was repaid on 17 April 2003. At 30 June 2003, the outstanding interest payable from Metro Pacific to Larouge B.V. on this loan amounted to Pesos 721 million (US\$13.4 million).

(b) Since December 1995, the Company has provided guarantee, on a pro-rata basis to its shareholding, in respect of the credit facilities extended to Escotel. Details are provided in Note 15(b). The purpose of the guarantees is to facilitate Escotel's financing activities.

(c) Asia Link B.V. (ALBV), a wholly-owned subsidiary of the Company, has an existing Technical Assistance Agreement with Smart Communications Inc. (Smart), a wholly-owned subsidiary 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 five years, subject to renewal upon mutual agreement between the parties. The agreement provides for quarterly payments of technical service fees equivalent to one per cent (2002: two per cent) of the net revenues 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.

Total fees under these arrangements amounted to Pesos 147 million (US\$2.7 million) for the period (2002: Pesos 233 million or US\$4.6 million). At 30 June 2003, ALBV has outstanding receivables under these arrangements amounted to Pesos 26 million (US\$0.5 million) (31 December 2002: Pesos 31 million or US\$0.6 million).

(d) In the ordinary course of business, Indofood has engaged in trade and financial 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. Mr. Anthoni Salim is the Non-executive Chairman and substantial shareholder of the Company and is a Commissioner of Indofood.

Indofood believes that these transactions are conducted under normal terms and conditions, similar to those with non-related parties. The more significant transactions with these related parties are summarized below.

Nature of balances	At 30 June 2003	At 31 December 2002
US\$ millions		
BALANCE SHEET ITEMS		
Accounts receivable – trade		
– from associated companies	6.4	6.0
– from affiliated companies	2.6	4.0
Accounts receivable – non-trade		
– from associated companies	1.5	1.2
– from affiliated companies	12.3	11.9
Long-term receivables		
– from associated companies	4.9	4.0
– from affiliated companies	0.5	1.5
Accounts payable – trade		
– to associated companies	1.3	1.4
– to affiliated companies	2.6	2.3
Nature of transactions		
Six months ended 30 June		
US\$ millions		
PROFIT AND LOSS ITEMS		
Sales of finished goods		
– to associated companies	23.8	26.4
– to affiliated companies	1.4	8.6
Purchase of raw materials		
– from associated companies	6.0	6.8
– from affiliated companies	0.4	16.2

Approximately three per cent (2002: four per cent) of Indofood's sales and one per cent (2002: four per cent) of its purchases were transacted with these related companies.

18. Subsequent event

On 29 July 2003, CAB Holdings Limited (CAB), a wholly-owned subsidiary of the Company, completed an issue of US\$115 million in principal amount of secured bonds (the Bonds). The Bonds bear interest at the rate of 8.25 per cent per annum payable six month in arrear, mature on 29 July 2006 at their aggregate principal amount, and are secured by the Group's 51.5 per cent interest in Indofood held by CAB. The net proceeds from the issue of the Bonds have been applied to prepay an outstanding secured debt, which was originally due and repayable in December 2003.

19. Comparative figures

Certain comparative figures have been reclassified to confirm with the current period's presentation.