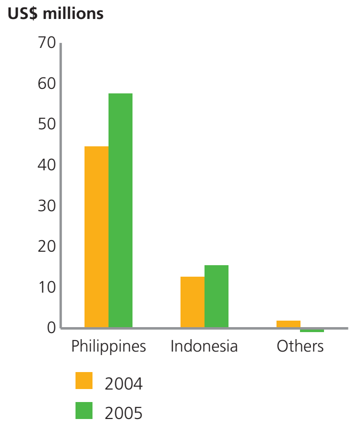
REVIEW OF OPERATIONS

Contribution by Country



CONTRIBUTION SUMMARY

For the six months ended 30 June US$ millions	Turnover 2005	Turnover 2004	Contribution to Group profit[i] 2005	Contribution to Group profit[i] 2004 (Restated)[ii]
PLDT[iii]	**—**	—	**58.8**	50.9
Indofood	**911.6**	973.4	**15.5**	12.7
Metro Pacific	**30.9**	28.6	**(1.1)**	(6.3)
Level Up[iii]	**—**	—	**(0.6)**	—
From continuing businesses	**942.5**	1,002.0	**72.6**	57.3
From a discontinued operation[iv]	**—**	—	**—**	1.9
FROM OPERATIONS	**942.5**	1,002.0	**72.6**	59.2
Head Office items:				
— Corporate overhead			**(5.3)**	(4.2)
— Net interest expense			**(10.0)**	(6.5)
— Other (expenses)/income			**(3.4)**	1.2
RECURRING PROFIT			**53.9**	49.7
Foreign exchange and derivative losses			**(7.7)**	(13.6)
Non-recurring items[v]			**14.6**	15.4
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			**60.8**	51.5

(i) After taxation and minority interest, where appropriate.

(ii) The Group has restated its 1H04 profit attributable to equity holders of the parent from US$54.7 million to US$51.5 million following the adoption of Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) which became effective on 1 January 2005. Details of the restatements are set out in Note 1 to the Condensed Interim Financial Statements.

(iii) Associated companies.

(iv) Represents Escotel.

(v) 1H05's non-recurring gains of US$14.6 million mainly comprise goodwill compensation received by Indofood in connection to the establishment of a joint venture entity of US$5.0 million, gain on dilution of the Group's interest in PLDT of US$3.0 million, Metro Pacific's agreed one-time adjustments made to amounts owed to Pacific Plaza Towers contractor and others. 1H04's non-recurring gains include gain on disposal of 49 per cent interest in Escotel of US$17.1 million.

During the period, the Group's turnover decreased by 5.9 per cent to US$942.5 million (1H04: US$1,002.0 million), principally reflecting the effect of rupiah depreciation. First Pacific's continuing business interests improved their performance in 1H05, recording profit contributions totaling US$72.6 million (1H04: US$57.3 million), an increase of 26.7 per cent. Recurring profit improved to US$53.9 million, from US$49.7 million in 1H04, and the Group recorded foreign exchange and derivative losses of US$7.7 million (1H04: US$13.6 million) principally due to a US$10.4 million loss on revaluation of option element of Head Office's Exchangeable Notes and foreign exchange translation differences on its unhedged foreign currency denominated borrowings, and US$14.6 million (1H04: US$15.4 million) of net non-recurring gains. First Pacific recorded net profit for 1H05 of US$60.8 million, a 18.1 per cent improvement over 1H04's net profit of US$51.5 million.

The Group's operating results are denominated in local currencies, principally the peso and rupiah, which are translated and consolidated to provide the Group's results in U.S. dollar. The changes of these currencies against the U.S. dollar is summarized below.

Closing:	At 30 June 2005	At 31 December 2004	Six months change	At 30 June 2004	One year change
Peso	**56.11**	56.13	—	56.19	+0.1%
Rupiah	**9,713**	9,290	-4.4%	9,415	-3.1%

Average:	Six months ended 30 June 2005	12 months ended 31 December 2004	Six months change	Six months ended 30 June 2004	One year change
Peso	**54.91**	56.12	+2.2%	56.07	+2.1%
Rupiah	**9,443**	8,978	-4.9%	8,794	-6.9%

In 1H05, the Group recorded net foreign exchange and derivative losses of US$7.7 million principally due to a US$10.4 million loss on revaluation of option element of Head Office's Exchangeable Notes and foreign exchange translation differences on its unhedged foreign currency denominated borrowings. The foreign exchange and derivative losses may be further analyzed as follows:

For the six months ended 30 June US$ millions	2005	2004
Head Office	**(10.4)**	—
Indofood	**(5.0)**	(11.4)
PLDT	**7.7**	(2.0)
Others	**—**	(0.2)
TOTAL	**(7.7)**	(13.6)

PLDT

Philippine Long Distance Telephone Company (PLDT)'s operations are principally denominated in peso, which averaged Pesos 54.91 (1H04: 56.07) to the U.S. dollar. Its financial results are prepared under Philippine Generally Accepted Accounting Principles (GAAP) and reported in peso. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollar. Despite both of the Philippine GAAP and Hong Kong GAAP being largely based on International Financial Reporting Standards with effect from 1 January 2005, certain adjustments still need to be made to PLDT's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

For the six months ended 30 June Peso millions	2005	2004 (Restated)[i]
Net income under Philippine GAAP	**16,785**	12,423
Preference dividends[ii]	**(700)**	(708)
Net income attributable to common shareholders	**16,085**	11,715
Differing accounting treatments[iii]		
— Reclassification of non-recurring items	**—**	127
— Reversal of discount accretion under HKAS 39	**—**	203
— Others	**(1,122)**	(918)
Intragroup items[iv]	**150**	150
Adjusted net income under Hong Kong GAAP	**15,113**	11,277
Foreign exchange and derivative (gains)/losses[v]	**(1,743)**	458
PLDT's net income as reported by First Pacific	**13,370**	11,735
US$ millions		
Net income at prevailing average rates for 1H05: Pesos 54.91 and 1H04: Pesos 56.07	**243.5**	209.3
Contribution to First Pacific Group profit, at an average shareholding of 1H05: 24.2% and 1H04: 24.3%	**58.8**	50.9

(i) PLDT has restated its net income for 1H04 from Pesos 12,008 million to Pesos 12,423 million after adjusting for the effects of full adoption of a number of new and revised Philippine Financial Reporting Standards.

(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 of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. In 1H04, manpower rightsizing costs of Pesos 0.1 billion were excluded and presented separately as non-recurring items.*
- *Reversal of discount accretion under HKAS 39: Under the transitional provisions, the cumulative financial impacts of adopting HKAS 39 as of 1 January 2005 have been taken up as an adjustment to opening accumulated losses.*
- *Others principally represents the accrual of withholding tax on net income attributable to common shareholders at PLDT company level under HKAS 12.*

(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 the underlying operational results and profit contributions, foreign exchange and derivative gains/losses (net of related tax) are excluded and presented separately.

PLDT contributed a profit of US$58.8 million (1H04 restated: US$50.9 million) to the Group. In local currency terms, its consolidated core net income before foreign exchange and derivative gains increased 8.7 per cent to Pesos 15.0 billion (US$273.2 million) (1H04: Pesos 13.8 billion; US$246.1 million). Consolidated service revenues grew 2.9 per cent to Pesos 59.5 billion (US$1,083.7 million) (1H04: Pesos 57.8 billion; US$1,030.8 million) while consolidated earnings before interest, tax, depreciation and amortization (EBITDA) slightly improved to Pesos 37.5 billion (US$683.0 million) (1H04: Pesos 37.0 billion; US$659.8 million).

PLDT's consolidated free cash flow increased by 52.2 per cent to Pesos 27.4 billion (US$499.0 million) (1H04: Pesos 18.0 billion; US$321.0 million) which resulted primarily from a 39.7 per cent reduction in capital spending to Pesos 7.0 billion (US$127.5 million) (1H04: Pesos 11.6 billion; US$206.9 million). The significant increase in free cash flow accelerated PLDT's debt reduction activities. PLDT Group reduced debts by US$312 million during the period and further paid off US$110 million bonds on 1 August 2005. PLDT has raised its debt reduction target for 2005 to US$600 million from US$500 million.

Cellular: Smart's core earnings recorded a quarterly record high of Pesos 6.7 billion (US$122.0 million) which outperformed last year's second quarter's Pesos 6.6 billion (US$117.7 million) when the presidential election was held. Together, Smart and Piltel's *Talk 'N Text* GSM subscriber base grew by 1.6 million in the first six months of 2005 to 20.8 million (1H04: 16.0 million). This represents approximately 58 per cent of the cellular market in the Philippines. Revenues contributed from Smart's and Piltel's sustained growth in the first six months of 2005 increased to Pesos 35.4 billion (US$644.7 million) (1H04: Pesos 33.0 billion; US$588.5 million). EBITDA slightly increased to Pesos 22.8 billion (US$415.3 million) (1H04: Pesos 22.5 billion; US$401.3 million) due to higher revenues and lower subsidies on handsets. Net income before foreign exchange and derivative gains improved to Pesos 12.5 billion (US$227.7 million) (1H04: Pesos 11.7 billion; US$208.7 million) and free cash flow reached Pesos 19.9 billion (US$362.4 million) (1H04: Pesos 10.2 billion; US$181.9 million) resulting mainly from a decline of capital expenditure. Smart paid Pesos 14.0 billion (US$255.0 million) as dividend to PLDT in the first half of 2005.

Smart's underlying profitability is expected to be unaffected by the anticipated increase in churn rates in the second half of the year brought about by the termination of SIM-swapping activities effected in May.

Fixed Line: Fixed line subscribers and revenues remained stable at 2.1 million and Pesos 24.2 billion (US$440.8 million) (1H04: Pesos 24.1 billion; US$429.8 million), respectively. Fixed line EBITDA remained flat at Pesos 13.6 billion (US$247.7 million) (1H04: Pesos 13.6 billion; US$242.5 million) and free cash flow increased to Pesos 21.1 billion (US$384.3 million) (1H04: Pesos 18.8 billion; US$335.3 million) resulting from higher cash dividends from Smart. During the period, the debt level reduced by US$251 million.

PLDT fixed line is simplifying its network architecture through an upgrade of existing facilities to a Next Generation Network. This is expected to enlarge the revenue base by broadening product portfolio, and increase network flexibility and efficiency.

Information and Communications Technology: ePLDT net income increased by 66.0 per cent to Pesos 83 million (US$1.5 million) (1H04: Pesos 50 million; US$0.9 million) contributed from the significant revenue improvements of its call center, Netopia™, Vitro™ Data Center and other internet-related businesses. Consolidated call center revenues grew by 51.7 per cent to Pesos 836 million (US$15.2 million) (1H04: Pesos 551 million; US$9.8 million) resulting from an increase in capacity utilization.

By the end of the year, ePLDT plans to increase its combined call center seats to 4,800 from the current 3,179. The internet cafe chain network increased to 163 stores with over 7,500 PC terminals as of 30 June 2005.

REVIEW OF OPERATIONS

INDOFOOD

PT Indofood Sukses Makmur Tbk (Indofood)'s operations are principally denominated in rupiah, which averaged Rupiah 9,443 (1H04: 8,794) 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. dollar. Accordingly, certain adjustments need to be made to Indofood's reported rupiah results to ensure compliance with Hong Kong GAAP. An analysis of these adjustments follows.

For the six months ended 30 June **Rupiah billions**	**2005**	2004 (Restated)
Net income under Indonesian GAAP	**14**	121
Differing accounting treatments[i]		
— Reclassification of non-recurring items	**(47)**	—
— Gain/(loss) on revaluation of plantations	**45**	(69)
— Foreign exchange accounting	**27**	27
— Others	**(67)**	(56)
Adjusted net (loss)/income under Hong Kong GAAP	**(28)**	23
Foreign exchange and derivative losses[ii]	**312**	194
Indofood's net income as reported by First Pacific	**284**	217
US$ millions		
Net income at prevailing average rates for 1H05: Rupiah 9,443 and 1H04: Rupiah 8,794	**30.1**	24.7
Contribution to First Pacific Group profit, at an average shareholding of 1H05: 51.5% and 1H04: 51.5%	**15.5**	12.7

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

— Reclassification of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 1H05 of Rupiah 47 billion gains (1H04: Nil) represents Rupiah 91 billion goodwill compensation received in connection to the establishment of a joint venture entity, partly offset by Rupiah 44 billion of manpower rightsizing costs.

— Gain/(loss) on revaluation of plantations: Under Indonesian GAAP, Indofood measures its plantations (biological assets) on historical cost basis. HKAS 41 requires the measurement of plantations at fair value less estimated point-of-sale costs. The adjustment relates to the change in fair value of plantations during the period.

— 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, as the originating capitalized foreign exchange losses has already been written off by First Pacific.

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

Indofood contributed a profit of US$15.5 million (1H04 restated: US$12.7 million) to the Group.

In rupiah terms, consolidated sales of its three principal operations — Noodles, Flour and Edible Oils and Fats — accounted for 84.1 per cent of sales of Rupiah 8,608.7 billion (US$911.6 million) (1H04: Rupiah 8,560.0 billion; US$973.4 million) in the first half of 2005. The increase in sales of Flour was offset by the decreased sales in the Edible Oils and Fats — Trading and Plantation divisions. Gross margin decreased to 24.9 per cent (1H04 restated: 26.2 per cent) reflecting higher raw materials costs resulted from a 4.4 per cent depreciation in the rupiah and lower average selling prices for products of the Noodles and Plantation divisions during the period. Net profit decreased to Rupiah 14.5 billion (US$1.5 million) (1H04 restated: Rupiah 120.8 billion; US$13.7 million) resulting principally from a one-off non-cash charge of Rupiah 287.4 billion (US$30.4 million) for unwinding of the Principal Only Swap (POS) contracts, costs of Rupiah 39.2 billion (US$4.2 million) in relation to the early redemption of Euro bonds and Rupiah 63.2 billion (US$6.7 million) for retirement and severance allowances. Net interest costs were Rupiah 427.3 billion (US$45.3 million) (1H04: Rupiah 372.7 billion; US$42.4 million).

Noodles: In rupiah terms, sales were stable at Rupiah 2,901.7 billion (US$307.3 million) (1H04: Rupiah 2,930.3 billion; US$333.2 million) though the "buy 5 get 1 free" special offer for certain Indomie flavor reduced the average selling price by 2.4 per cent to Rupiah 551 (U.S. 5.8 cents) (1H04: Rupiah 564; U.S. 6.4 cents) per pack. Sales volumes reached 4.4 billion packs (1H04: 4.8 billion packs). Operating expenses decreased by 8.3 per cent to Rupiah 466.3 billion (US$49.0 million) (1H04 restated: Rupiah 508.4 billion; US$58.1 million) resulting mainly from reduction in advertising and promotion expenses.

Flour: In rupiah terms, sales improved by 8.7 per cent to Rupiah 3,616.8 billion (US$383.0 million) (1H04: Rupiah 3,328.0 billion; US$378.4 million) reflecting a 13.0 per cent increase in average selling price to Rupiah 2,937 (U.S. 31.1 cents) per kilogram (1H04: Rupiah 2,596 (U.S. 29.5 cents) per kilogram). Sales volumes decreased by 4.6 per cent to 1,111 thousand tons (1H04: 1,164 thousand tons). Operating expenses increased by 18.0 per cent to Rupiah 287.6 billion (US$30.6 million) (1H04 restated: Rupiah 243.8 billion; US$27.6 million) reflecting higher advertising and promotion expenses incurred to compete with imported flour.

Edible Oils and Fats: In rupiah terms, sales decreased by 20.4 per cent to Rupiah 2,057.7 billion (US$217.9 million) (1H04: Rupiah 2,586.5 billion; US$294.1 million) reflecting a decrease in sales volumes in the Trading and Plantation divisions and average selling price in the Plantation division. Gross profit decreased by 18.9 per cent to Rupiah 492.2 billion (US$52.2 million) (1H04 restated: Rupiah 606.8 billion; US$68.8 million) principally resulting from lower average selling prices and reduced sales volume for the Plantation division. Others divisions include Food Seasonings, Snack Foods, Nutrition and Special Foods, and Distribution. In rupiah terms, combined sales improved by 16.4 per cent to Rupiah 1,421.3 billion (US$150.5 million) (1H04: Rupiah 1,221.2 billion: US$138.9 million) contributed from higher sales value recorded at the Nutrition and Special Foods, and Distribution divisions. Combined gross margin reduced to 25.2 per cent (1H04 restated: 28.9 per cent).

As of 30 June 2005, Indofood had bought back US$119 million of its US$280 million Eurobonds due in 2007. Effective from 1 January 2005, the Governments of Mauritius and Indonesia cancelled a tax treaty which doubles the tax payment of the bond to 20 per cent from 10 per cent. Indofood was seeking UK High Court's ruling regarding its legal rights to redeem the bonds at par value on the basis of revocation of the double taxation. On 2 August 2005, UK High Court decided to disallow Indofood from exercising its legal rights to redeem the bonds at par and will give its reasons in September 2005. Regarding this decision, Indofood will consider all of the options, including the possibility of an appeal after receiving the reasons for the ruling in September 2005.

Indofood declared a final dividend of Rupiah 17.5 (U.S. 0.2 cent) per share in respect of the 2004 financial year to be paid in September 2005, which represents a payout ratio of 40 per cent.

METRO PACIFIC

Metro Pacific Corporation (Metro Pacific)'s operations are principally denominated in peso, which averaged Pesos 54.91 (1H04: 56.07) to the U.S. dollar. Its financial results are prepared under Philippine GAAP and reported in peso. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollar. Despite both of the Philippine GAAP and Hong Kong GAAP being largely based on International Financial Reporting Standards with effect from 1 January 2005, certain adjustments still need to be made to Metro Pacific's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

For the six months ended 30 June **Peso millions**	**2005**	2004 (Restated)
Net income/(loss) under Philippine GAAP	**91**	(9)
Differing accounting treatments[(i)]		
— Reclassification/reversal of non-recurring items	**(175)**	(494)
— Others	**(1)**	55
Intragroup items[(ii)]	**5**	4
Adjusted net loss under Hong Kong GAAP	**(80)**	(444)
Foreign exchange and derivative (gains)/losses[(iii)]	**(1)**	9
Metro Pacific's net loss as reported by First Pacific	**(81)**	(435)
US$ millions		
Net loss at prevailing average rates for 1H05: Pesos 54.91 and 1H04: Pesos 56.07	**(1.5)**	(7.8)
Contribution to First Pacific Group profit, at an average shareholding of 1H05: 75.5% and 1H04: 80.6%	**(1.1)**	(6.3)

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

— Reclassification/reversal of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 1H05 of Pesos 0.2 billion gains principally relate to an agreed one-time adjustment made to amounts owed to Pacific Plaza Towers contractor. Adjustment for 1H04 of Pesos 0.5 billion principally relate to the reclassification/reversal of provisions for various assets of the shipping subsidiary and gains realized from various debt reduction and restructuring exercises.

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

(iii) To illustrate the underlying operational results and profit contributions, foreign exchange and derivative gains/losses (net of related tax) are excluded and presented separately.

Metro Pacific contributed a loss of US$1.1 million (1H04: US$6.3 million) to the Group. Revenues improved by six per cent to Pesos 1.7 billion (US$31.0 million) (1H04: Pesos 1.6 billion; US$28.5 million) and operating expenses reduced by 29.2 per cent to Pesos 223.5 million (US$4.1 million) (1H04: Pesos 315.9 million; US$5.6 million) resulting from strict cost management.

Metro Pacific successfully reduced debt by approximately Pesos 500 million (US$9.1 million) (1H04: Pesos 500 million; US$8.9 million) through asset-for-debt swaps during the period. As a result, financing charges significantly reduced by 65 per cent to Pesos 108.7 million (US$2.0 million) (1H04: Pesos 312.2 million; US$5.6 million). By 2005 year-end, parent company level's debt is expected to reduce to below Pesos 300 million (US$5.3 million) upon the completion of closing documentation in respect of a further Pesos 434 million (US$7.7 million) of debt.

Landco's net profit increased to Pesos 51.1 million (US$0.9 million) (1H04 restated: Pesos 32.4 million; US$0.6 million) resulting from the strong performance of Ponderosa Leisure Farms. Ponderosa, Terrazas de Punta Fuego, Pacific Mall Legaspi are all undergoing different levels of expansion. Landco plans to launch the development of a new mall in Naga by year-end.

Pacific Plaza Towers recorded a net profit of Pesos 171.5 million (US$3.1 million) (1H04: loss of Pesos 16.4 million; US$0.3 million) principally contributed from a one-off gain in relation to one-time adjustments to fees owed to a Pacific Plaza Towers contractor.

Nenaco's loss substantially reduced to Pesos 5.0 million (US$0.9 million) (1H04 restated: Pesos 903.5 million; US$16.1 million), reflecting a 16 per cent increase in passenger and cargo volumes, the consolidation of its profitable hotel and restaurant subsidiary company and a decrease in general and administrative expenses. Management is now focused on rebuilding its strength in certain key Western Visayan routes and further improving operational performance.

LEVEL UP

First Pacific invested US$15 million for a 25 per cent interest in Level Up! International Holdings Pte. Ltd. (Level Up) in March 2005. First Pacific recorded a loss of US$0.6 million for its share of Level Up's loss in the second quarter of 2005.

Level Up recorded a total subscriber base of approximately 250,000 with an operating loss in the first half of 2005, primarily due to the start up losses in its Brazilian operation and the pre-launch marketing expenses and overheads in India.

In the Philippines, commercial operations began in January 2003. Level Up has grown rapidly since then with its flagship MMOG Ragnarok, licensed from Gravity Corp. of Korea. At the end of the second quarter, beta (free) testing of ROSE, a 3-D MMOG also from Gravity, was started, and commercial launch is expected shortly. A casual multiplayer online game and another 3-D MMOG will be launched later in the year.

In Brazil, commercial operations of Ragnarok were started in late February 2005, and encouraging growth has been experienced since then, after the normal dip in player numbers from the free open beta phase. Subscriber numbers are now significantly higher than during the free open beta phase.

In India, the business is in the market development stage.