## 1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The Condensed Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34 "Interim Financial Reporting" issued by 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 2004 audited Financial Statements, except as described below.

Significant changes to the Hong Kong Generally Accepted Accounting Principles (HK GAAP) have been implemented during 2005 as a consequence of the introduction of a number of new and revised HKASs and HKFRSs (herein collectively referred to as the new HKFRSs) by the HKICPA, which are effective for accounting periods commencing on, or after, 1 January 2005. The new HKFRSs, which replaced the previous Statements of Standard Accounting Practice, were issued by the HKICPA to align with the equivalent International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs). The principal changes to HK GAAP and the HKFRSs which affect the Group's condensed consolidated financial statements are summarized as follows:

| | |
|---|---|
| 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 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 condensed 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 judgements management has made in the process of applying the entity's accounting policies. The standard also requires changes in the presentation of minority interest in the consolidated profit and loss statement, balance sheet and statement of changes in equity. The adoption of HKAS 1 has resulted in changes in the presentation of the Group's consolidated profit and loss statement, balance sheet and statement of changes in equity, but has had no effect on both the profit attributable to equity holders of the parent for the period ended 30 June 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 each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. It also requires 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 period ended 30 June 2004 by US$0.3 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 amortized 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 Long-term receivables and prepayments 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 period ended 30 June 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 risks 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 period ended 30 June 2004 by US$2.3 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 reduced the equity attributable to equity holders of the parent at 1 January 2005 by US$32.1 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 period ended 30 June 2004 by US$0.6 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 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 period ended 30 June 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. 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 period ended 30 June 2004 and equity attributable to equity holders of the parent at 31 December 2004.

The impacts of the adoption of HKFRSs on the figures reported by the Group for the prior year are summarized as follows:

| US$ millions | As previously reported For the six months ended 30 June 2004 | Restatement HKAS1 | HKAS16 | HKAS32 | HKFRS2 | HKFRS5 | As restated For the six months ended 30 June 2004 |
|---|---|---|---|---|---|---|---|
| **PROFIT AND LOSS STATEMENT** | | | | | | | |
| Profit before taxation | 88.6 | (15.5) | (0.5) | (3.4) | (0.6) | (18.8) | 49.8 |
| Profit attributable to equity holders of the parent | 54.7 | — | (0.3) | (2.3) | (0.6) | — | 51.5 |

| US$ millions | As previously reported At 31 December 2004 | Restatement HKAS16 | HKAS32 | As restated At 31 December 2004 |
|---|---|---|---|---|
| **BALANCE SHEET** | | | | |
| Total assets | 2,228.3 | 5.5 | (65.1) | 2,168.7 |
| Total liabilities | 1,568.6 | 9.0 | — | 1,577.6 |
| Equity attributable to equity holders of the parent | 294.6 | (2.1) | (65.1) | 227.4 |
| Minority interest | 365.1 | (1.4) | — | 363.7 |
| Total equity | 659.7 | (3.5) | (65.1) | 591.1 |

| US$ millions | As previously reported At 1 January 2004 | Restatement HKAS16 | Restatement HKAS32 | As restated At 1 January 2004 |
|---|---|---|---|---|
| **BALANCE SHEET** | | | | |
| Total assets | 2,213.5 | 7.2 | (59.5) | 2,161.2 |
| Total liabilities | 1,785.7 | 9.8 | — | 1,795.5 |
| Equity attributable to equity holders of the parent | 51.1 | (1.5) | (59.5) | (9.9) |
| Minority interest | 376.7 | (1.1) | — | 375.6 |
| Total equity | 427.8 | (2.6) | (59.5) | 365.7 |

The adoption of HKFRSs has had no significant impact on figures reported in prior years' cash flow statements.

The following tables summarize the impact on the Group's profit for the period, income or expenses recognized directly in equity and capital transactions with equity holders for the periods ended 30 June 2005 and 2004 upon the adoption of the new HKFRSs. The impact for 30 June 2005 is estimated to the extent that is practicable. As no retrospective adjustments have been made for the adoption of HKAS 39 and HKFRS 3, the amounts shown for the period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

**(a) Effect of new accounting policies on profit for the period**

| For the six months ended 30 June 2005<br>US$ millions | HKAS16 | HKAS32 | HKAS39 | HKFRS2 | HKFRS3 | Total | Effect on earnings per share (U.S. cents) Basic | Effect on earnings per share (U.S. cents) Diluted |
|---|---|---|---|---|---|---|---|---|
| **EFFECT ON PROFIT ATTRIBUTABLE TO:** | | | | | | | | |
| Equity holders of the parent | (2.8) | (0.8) | 2.4 | (3.4) | 3.9 | **(0.7)** | **(0.02)** | **(0.02)** |
| Minority interest | (0.2) | — | 9.6 | — | 0.5 | **9.9** | | |
| **TOTAL** | **(3.0)** | **(0.8)** | **12.0** | **(3.4)** | **4.4** | **9.2** | | |

| For the six months ended 30 June 2004<br>US$ millions | HKAS16 | HKAS32 | HKFRS2 | Total | Effect on earnings per share (U.S. cents) Basic | Effect on earnings per share (U.S. cents) Diluted |
|---|---|---|---|---|---|---|
| **EFFECT ON PROFIT ATTRIBUTABLE TO:** | | | | | | |
| Equity holders of the parent | (0.3) | (2.3) | (0.6) | (3.2) | (0.10) | N/A |
| Minority interest | (0.1) | — | — | (0.1) | | |
| **TOTAL** | (0.4) | (2.3) | (0.6) | (3.3) | | |

*N/A: Not applicable*

**(b) Effect of new accounting policies on income or expenses recognized directly in equity and capital transactions with equity holders**

| For the six months ended 30 June 2005<br>US$ millions | HKAS39 | HKFRS2 | Total |
|---|---|---|---|
| **EFFECT ON EQUITY ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | (1.5) | 3.4 | **1.9** |
| Minority interest | — | — | **—** |
| **TOTAL** | **(1.5)** | **3.4** | **1.9** |

| For the six months ended 30 June 2004<br>US$ millions | HKFRS2 | Total |
|---|---|---|
| **EFFECT ON EQUITY ATTRIBUTABLE TO:** | | |
| Equity holders of the parent | 0.6 | 0.6 |
| Minority interest | — | — |
| **TOTAL** | 0.6 | 0.6 |

## 2. TURNOVER AND SEGMENTAL INFORMATION

| For the six months ended 30 June<br>US$ millions | 2005 | 2004 |
|---|---|---|
| **TURNOVER** | | |
| Sale of goods and properties | **919.5** | 984.8 |
| Rendering of services | **23.0** | 17.2 |
| **TOTAL** | **942.5** | 1,002.0 |

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 — 2005**

| For the six months ended 30 June 2005<br>US$ millions | Telecom-munications | Consumer Food Products | Property and Transportation | Head Office | Total |
|---|---|---|---|---|---|
| **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** |
| Other non-cash expenses | — | 1.1 | 0.5 | — | **1.6** |

**By principal geographical market — 2005**

| For the six months ended 30 June 2005<br>US$ millions | The Philippines | Indonesia | Total |
|---|---|---|---|
| Segment revenue — turnover | 30.9 | 911.6 | **942.5** |
| Capital expenditure | 2.3 | 21.3 | **23.6** |

**By principal business activity — 2004**

| For the six months ended 30 June 2004 (Restated)<br>US$ millions | Telecom-munications | Consumer Food Products | Property and Transportation | Head Office | Total |
|---|---|---|---|---|---|
| **PROFIT AND LOSS** | | | | | |
| Segment revenue — turnover | — | 973.4 | 28.6 | — | 1,002.0 |
| Segment results | | 61.4 | (1.9) | (4.2) | 55.3 |
| Net borrowing costs | | | | | (55.4) |
| Share of profits less losses of associated companies | 50.2 | (0.2) | (0.1) | — | 49.9 |
| Profit before taxation | | | | | 49.8 |
| Taxation | | | | | (10.6) |
| Profit from continuing operations | | | | | 39.2 |
| Profit from a discontinued operation (Note 6) | | | | | 18.8 |
| Profit for the period | | | | | 58.0 |
| **OTHER INFORMATION** | | | | | |
| Capital expenditure | — | 75.4 | 2.6 | — | 78.0 |
| Depreciation and amortization | — | 26.3 | 2.2 | — | 28.5 |
| Other non-cash expenses | — | 16.8 | 9.2 | — | 26.0 |

**By principal geographical market — 2004**

| For the six months ended 30 June 2004<br>US$ millions | The Philippines | Indonesia | Total |
|---|---|---|---|
| Segment revenue — turnover | 28.6 | 973.4 | 1,002.0 |
| Capital expenditure | 2.6 | 75.4 | 78.0 |

## 3. NET BORROWING COSTS

| For the six months ended 30 June<br>US$ millions | 2005 | 2004 |
|---|---|---|
| Loan capital wholly repayable within five years | — | 0.3 |
| Bank loans and other loans | | |
| — wholly repayable within five years | **64.0** | 60.3 |
| — not wholly repayable within five years | **0.6** | 1.8 |
| **TOTAL BORROWING COSTS** | **64.6** | 62.4 |
| Less interest income | **(5.4)** | (7.0) |
| **NET BORROWING COSTS** | **59.2** | 55.4 |

## 4. PROFIT BEFORE TAXATION

| For the six months ended 30 June<br>US$ millions | 2005 | 2004<br>(Restated) |
|---|---|---|
| **PROFIT BEFORE TAXATION IS STATED AFTER (CHARGING)/CREDITING:** | | |
| Cost of inventories sold | **(552.7)** | (595.4) |
| Depreciation (Note 11) | **(32.7)** | (28.0) |
| Net foreign exchange and derivative losses (Note 7) | **(24.3)** | (31.6) |
| Cost of services rendered | **(21.2)** | (16.3) |
| Doubtful debt provisions | **(1.6)** | (2.8) |
| Realized losses on sale of available-for-sale assets | **—** | (3.3) |
| Unrealized losses on available-for-sale assets | **—** | (2.9) |
| Amortization of goodwill (included in Other operating expenses, net) | **—** | (0.5) |
| Gain on sale of property and equipment | **—** | 1.0 |
| Gain/(loss) on changes in fair value of plantations | **8.5** | (14.0) |
| Gain on dilution of interest in an associated company | **3.0** | — |
| Dividend income from available-for-sale assets | **1.3** | — |

## 5. 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 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<br>US$ millions | 2005 | 2004<br>(Restated) |
|---|---|---|
| **SUBSIDIARY COMPANIES — OVERSEAS** | | |
| Current taxation | **15.5** | 21.1 |
| Deferred taxation | **4.9** | (10.5) |
| **TOTAL** | **20.4** | 10.6 |

Included within share of profits less losses of associated companies is taxation of US$24.2 million (2004: US$15.5 million) and is analyzed as follows.

| For the six months ended 30 June<br>US$ millions | 2005 | 2004<br>(Restated) |
|---|---|---|
| **ASSOCIATED COMPANIES — OVERSEAS** | | |
| Current taxation | **21.1** | 18.3 |
| Deferred taxation | **3.1** | (2.8) |
| **TOTAL** | **24.2** | 15.5 |

## 6. PROFIT 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.

## 7. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Profit attributable to equity holders of the parent includes US$7.7 million (2004: US$13.6 million) net foreign exchange and derivative losses that arose primarily on the translation of the unhedged foreign currency denominated borrowings and changes in the fair values of derivatives, and US$14.6 million (2004: US$15.4 million) of net non-recurring gains.

**Analysis of foreign exchange and derivative losses**

| **For the six months ended 30 June**<br>**US$ millions** | **2005** | 2004 |
|---|---|---|
| Foreign exchange and derivative (losses)/gains | | |
| — Subsidiary companies | **(24.3)** | (31.6) |
| — Associated companies | **11.4** | (3.1) |
| Subtotal | **(12.9)** | (34.7) |
| Attributable to taxation and minority interest | **5.2** | 21.1 |
| **TOTAL** | **(7.7)** | (13.6) |

The net non-recurring gains for 2005 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. 2004's non-recurring gains include gain on disposal of 49 per cent interest in Escotel of US$17.1 million.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the period of US$60.8 million (2004 restated: US$51.5 million), and the weighted average of 3,186.0 million (2004: 3,186.0 million) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period ended 30 June 2005 is based on: (i) a profit equal to the profit attributable to equity holders of the parent for the period of US$60.8 million adjusted by the US$4.5 million reduction in share of profits of associated companies assuming the conversion of dilutive convertible preference shares and share options issued by an associated company, and (ii) a share base equal to the aggregate of the weighted average number of ordinary shares of 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 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 diluted earnings per share amount for the six months ended 30 June 2004 has not been disclosed as no diluting events existed during that period.

## 9. ORDINARY SHARE DIVIDEND

At a meeting held on 31 August 2005, the Directors declared an interim cash dividend of U.S. 0.13 cent (2004: Nil) per ordinary share totaling US$4.1 million (2004: Nil).

## 10. 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 the inside back cover.

(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 742 million (US$13.2 million) as of 30 June 2005 from Pesos 11.7 billion (US$208.5 million) as of 31 December 2001 when the debt reduction program was commenced. Metro Pacific anticipates it will further reduce its parent company's debts to less than Pesos 300 million (US$5.3 million) by the end of 2005.

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.

## 11. PROPERTY AND EQUIPMENT

The movements in property and equipment are set out below.

| US$ millions | **2005** | 2004 (Restated) |
|---|---|---|
| At 1 January | **647.4** | 671.8 |
| Exchange translation | **(29.0)** | (62.3) |
| Additions | **23.6** | 78.0 |
| Disposals | **(2.0)** | (5.0) |
| Acquisition of subsidiary companies (Note 16(a)) | **2.0** | — |
| Depreciation (Note 4) | **(32.7)** | (28.0) |
| Reclassification[i] | **17.5** | (51.5) |
| **AT 30 JUNE** | **626.8** | 603.0 |

*(i) Reclassified from/(to) Long-term receivables and prepayments.*

The additions during the period principally represented Indofood's purchase of machinery and equipment.

## 12. ASSOCIATED COMPANIES

| US$ millions | **At 30 June 2005** | At 31 December 2004 (Restated) |
|---|---|---|
| PLDT | **252.9** | 140.7 |
| Metro Pacific's associated companies | **24.5** | 26.8 |
| Level Up | **14.9** | — |
| Others | **4.1** | 1.4 |
| **TOTAL** | **296.4** | 168.9 |

## 13. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND PREPAYMENTS

Included in accounts receivable, other receivables and prepayments are trade receivables of US$172.2 million (31 December 2004: US$170.3 million), with an aged profile as below.

| US$ millions | **At 30 June 2005** | At 31 December 2004 |
|---|---|---|
| 0 to 30 days | **121.9** | 145.5 |
| 31 to 60 days | **26.0** | 6.0 |
| 61 to 90 days | **6.5** | 12.2 |
| Over 90 days | **17.8** | 6.6 |
| **TOTAL** | **172.2** | 170.3 |

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. The current portion of which is included above.

## 14. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

Included in accounts payable, other payables and accruals are trade payables of US$145.3 million (31 December 2004: US$145.1 million), with an aged profile as below.

| US$ millions | **At 30 June 2005** | At 31 December 2004 |
|---|---|---|
| 0 to 30 days | **131.7** | 121.2 |
| 31 to 60 days | **6.6** | 7.4 |
| 61 to 90 days | **1.5** | 5.6 |
| Over 90 days | **5.5** | 10.9 |
| **TOTAL** | **145.3** | 145.1 |

## 15. DEFERRED LIABILITIES AND PROVISIONS

| US$ millions | Pension | Deferred income | Long-term payables | Others | 2005 Total | 2004 (Restated) Total |
|---|---|---|---|---|---|---|
| At 1 January, as restated | 40.9 | 28.3 | 39.6 | 16.3 | **125.1** | 129.6 |
| Exchange translation | (1.8) | — | (0.2) | — | **(2.0)** | (5.1) |
| Additions | 6.4 | 0.1 | 5.2 | 3.3 | **15.0** | 3.1 |
| Payment and utilization | (9.1) | (2.3) | (2.3) | — | **(13.7)** | (18.2) |
| Reclassification[(i)] | — | — | (19.8) | 8.7 | **(11.1)** | — |
| Subtotal | 36.4 | 26.1 | 22.5 | 28.3 | **113.3** | 109.4 |
| Less current portion included in accounts payable, other payables and accruals | — | (1.3) | (7.0) | (8.3) | **(16.6)** | (20.8) |
| **AT 30 JUNE** | **36.4** | **24.8** | **15.5** | **20.0** | **96.7** | 88.6 |

*(i) Reclassified to Loan capital and long-term borrowings and from Accounts payable, other payables and accruals.*

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 19(c)) and the unrealized gross profit arising on property sales.

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

Others mainly relates to provisions for warranty claims.

## 16. NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisitions of subsidiary companies

| US$ millions | Indofood's acquisitions of Silveron Investments Limited (SIL) and its subsidiary companies | Others | Total |
|---|---|---|---|
| **CONSIDERATION** | | | |
| Cash and cash equivalents | 1.8 | 0.1 | **1.9** |
| Accounts receivable, other receivables and prepayments(i) | 16.7 | — | **16.7** |
| **TOTAL** | 18.5 | 0.1 | **18.6** |
| **NET ASSETS** | | | |
| Property and equipment (Note 11) | 1.7 | 0.3 | **2.0** |
| Plantations | 13.7 | — | **13.7** |
| Long-term receivables and prepayments | 1.9 | — | **1.9** |
| Deferred tax assets | 0.6 | — | **0.6** |
| Cash and cash equivalents | 2.6 | 0.3 | **2.9** |
| Accounts receivable, other receivables and prepayments | 0.5 | 1.8 | **2.3** |
| Inventories | 0.1 | 0.8 | **0.9** |
| Accounts payable, other payables and accruals | (0.8) | (3.1) | **(3.9)** |
| Short-term borrowings | (1.1) | — | **(1.1)** |
| Loan capital and long-term borrowings | (1.4) | — | **(1.4)** |
| Deferred tax liabilities | (3.7) | — | **(3.7)** |
| **TOTAL NET ASSETS ACQUIRED AT FAIR VALUE** | 14.1 | 0.1 | **14.2** |
| **GOODWILL** | 4.4 | — | **4.4** |
| **NET INFLOW OF CASH AND CASH EQUIVALENTS PER CONDENSED CONSOLIDATED CASH FLOW STATEMENT** | 0.8 | 0.2 | **1.0** |

*(i) Represented deposit paid for the acquisition made by Indofood in December 2004.*

In June 2005, Indofood completed the acquisition of 100 per cent interest in SIL for 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.

If all of the above acquisitions had taken place on 1 January 2005, the turnover and profit for the period of the Group for the six months ended 30 June 2005 would be US$944.0 million and US$85.7 million, respectively. The subsidiary companies acquired during the period had net cash outflows from operating activities of US$0.4 million and paid US$0.8 million in respect of financing activities during the period.

**(b) Increased investment in an associated company**

The cash outflow of US$28.2 million relates to the Group's increased interest in PLDT to 24.6 per cent.

**(c) Acquisition of an associated company**

The cash outflow of US$15.0 million relates to the Group's acquisition of a 25.0 per cent interest in Level Up in March 2005.

**(d) Restricted cash**

At 30 June 2005, the Group had US$4.7 million (31 December 2004: US$9.2 million) of cash which was restricted as to use. None of the amount (31 December 2004: US$4.5 million) is expected to be released within one year from 30 June 2005 and required to be classified as current assets.

**(e) Major non-cash transaction**

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

## 17. COMMITMENTS AND CONTINGENT LIABILITIES

**(a) Capital expenditure**

| US$ millions | At 30 June 2005 | At 31 December 2004 |
|---|---|---|
| Commitments in respect of subsidiary companies: | | |
| Authorized, but not contracted for | **13.1** | 19.1 |
| Contracted, but not provided for | **1.4** | 9.1 |
| **TOTAL** | **14.5** | 28.2 |

Capital expenditure commitments principally relate to Indofood's purchase of machinery and equipment and Metro Pacific's property development obligations and vessel's related expenditures.

**(b) Contingent liabilities**

At 30 June 2005, neither the Group nor the Company had any significant contingent liabilities (31 December 2004: Nil).

## 18. 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 2005 are set out below:

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

| COMPANY | Share options held at 1 January and 30 June 2005 | Share options exercise price *(HK$)* | Market price at date of grant *(HK$)* | Grant date | Fully vested by | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|
| **EXECUTIVE DIRECTORS** | | | | | | | |
| Manuel V. Pangilinan | 31,800,000 | 1.76 | 1.76 | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| Edward A. Tortorici | 31,800,000 | 1.76 | 1.76 | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| Robert C. Nicholson | 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 | 1.76 | 1.76 | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| Benny S. Santoso | 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 | 1.76 | 1.76 | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| Edward K.Y. Chen *(GBS, CBE, JP)* | 2,840,000 | 1.76 | 1.76 | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| David W.C. Tang *(OBE, Chevallier de L'Ordre des Arts et des Lettres)* | 2,840,000 | 1.76 | 1.76 | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| **SENIOR EXECUTIVES** | 32,286,000 | 1.76 | 1.76 | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| **TOTAL** | **134,586,000** | | | | | | |

For details relating to First Pacific's share option scheme, including valuation of options, please refer to pages 91 and 92 of First Pacific's 2004 Annual Report. No share options have been granted, canceled or exercised during the period.

The aggregate fair value of US$14.6 million for the above options granted are recognized, together with a corresponding increase in equity, over their vesting period for the relevant Directors and senior executives in accordance with the Group's revised accounting policy pursuant to HKFRS 2 "Share-based Payment". Details of the change in the Group's accounting policy in respect of share options granted and the financial impacts are set out in Note 1.

**(b) Particulars of Metro Pacific's share option scheme**

| METRO PACIFIC | Share options held at 1 January 2005 | Share options canceled during the period | Share options held at 30 June 2005 | Share options 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** | **(5,027,259)** | **4,305,684** | | | | | |

For details relating to Metro Pacific's share option scheme effective on 15 May 1990 (Old Scheme), please refer to page 93 of First Pacific's 2004 Annual Report. No share options have been granted or exercised during the period in respect of the Old Scheme.

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 Philippine Stock Exchange (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 5 business days on which dealings in the Metro Pacific shares are made immediately preceding the option grant date; or (iii) the par value of the Metro Pacific shares, whichever is higher.

Up to 31 August 2005, no share options have been granted under the New Scheme.

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 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 minor children had any right to subscribe for securities of the Company, or had exercised any such right during the period.

## 19. RELATED PARTY TRANSACTIONS

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

(a) At 30 June 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$14.1 million) (31 December 2004: Pesos 793 million or US$14.1 million). The amount is interest-free, secured and not 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. MPRI's funding for such subscription came from the proceeds of approximately Pesos 450 million (US$8.0 million) realized from First Pacific's sale of 5.1 per cent aggregate shareholding in Metro Pacific in September and October 2004.

(c) 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 278 million (US$5.1 million) for the period ended 30 June 2005 (2004: Pesos 214 million or US$3.8 million). At 30 June 2005, ALBV had outstanding receivable under the technical assistance agreement amounting to Pesos 284 million (US$5.1 million) (31 December 2004: Pesos 267 million or US$4.8 million).

(d) 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**<br>**US$ millions** | **2005** | 2004 |
|---|---|---|
| **PROFIT AND LOSS ITEMS** | | |
| Sales of finished goods | | |
| — to associated companies | **17.1** | 25.4 |
| — to affiliated companies | **14.7** | 1.8 |
| Purchases of raw materials | | |
| — from associated companies | **12.5** | 6.6 |
| — from affiliated companies | **3.4** | 1.8 |
| Management and technical services fee income and royalty income | | |
| — from associated companies | **0.2** | 0.1 |
| — from affiliated companies | **1.3** | 1.1 |
| Rental expenses | | |
| — to affiliated companies | **0.7** | 0.8 |
| Transportation and pump services expenses | | |
| — to affiliated companies | **0.4** | 0.6 |

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

**Nature of balances**

| **US$ millions** | **At 30 June 2005** | At 31 December 2004 |
|---|---|---|
| **BALANCE SHEET ITEMS** | | |
| Accounts receivable — trade | | |
| — from associated companies | **6.4** | 6.8 |
| — from affiliated companies | **5.8** | 4.6 |
| Accounts receivable — non-trade | | |
| — from associated companies | **7.0** | 3.8 |
| — from affiliated companies | **4.8** | 4.3 |
| Long-term receivables | | |
| — from associated companies | **—** | 4.7 |
| — from affiliated companies | **0.6** | 0.7 |
| Accounts payable — trade | | |
| — to associated companies | **4.6** | 2.5 |
| — to affiliated companies | **1.3** | 1.2 |
| Accounts payable — non-trade | | |
| — to affiliated companies | **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 pages 43 and 44.

## 20. COMPARATIVE FIGURES

Amounts have been reclassified and comparatives have been restated, as appropriate, for the adoption of a number of new and revised HKFRSs (Note 1). Such reclassifications and restatements have the effects of reducing the equity attributable to equity holders of the parent at 31 December 2004 from US$294.6 million to US$227.4 million and reducing the profit attributable to equity holders of the parent for the six months ended 30 June 2004 from US$54.7 million to US$51.5 million.