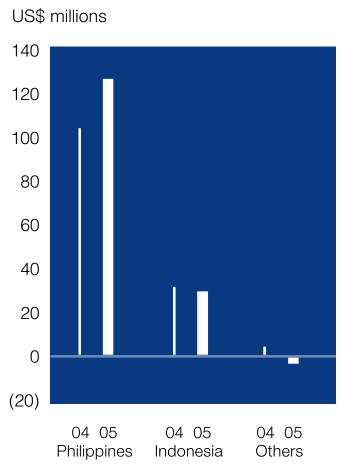
Review of Operations

Contents

Contribution by Country



Contribution Summary

For the year ended 31 December US$ millions	Turnover 2005	Turnover 2004	Contribution to Group profit[i] 2005	Contribution to Group profit[i] 2004 (Restated)[ii]
PLDT[iii]	**–**	–	**132.2**	117.1
Indofood	**1,923.4**	1,995.8	**29.6**	33.4
Metro Pacific	**62.7**	58.8	**(6.0)**	(9.4)
Level Up[iii]	**–**	–	**(1.5)**	–
From continuing businesses	**1,986.1**	2,054.6	**154.3**	141.1
From a discontinued operation[iv]	**–**	–	**–**	1.9
From operations	**1,986.1**	2,054.6	**154.3**	143.0
Head Office items:				
– Corporate overhead			**(11.5)**	(10.0)
– Net interest expense			**(20.3)**	(12.6)
– Other expenses			**(5.3)**	(3.6)
Recurring profit			**117.2**	116.8
Foreign exchange and derivative losses			**(18.5)**	(15.9)
Non-recurring items[v]			**4.3**	23.0
Profit attributable to equity holders of the parent			**103.0**	123.9

(i) After taxation and minority interest, where appropriate.
(ii) The Group has restated its 2004 profit attributable to equity holders of the parent from US$134.5 million to US$123.9 million following the adoption of HKFRSs issued by the HKICPA which became effective on 1 January 2005. Details of the restatements are set out in Note 2(B) to the Financial Statements.
(iii) Associated companies.
(iv) Represents Escotel.
(v) 2005's non-recurring gains of US$4.3 million mainly comprise goodwill compensation received by Indofood in connection to the establishment of a joint venture entity of US$4.8 million, Metro Pacific's agreed one-time adjustments made to amounts owed to certain creditors, partly offset by a loss on dilution of the Group's 1.4 per cent interest in PLDT of US$6.3 million, whereas 2004's non-recurring gains of US$23.0 million mainly comprise gain on disposal of 49 per cent interest in Escotel (US$17.1 million).

During the year, the Group's turnover decreased by 3.3 per cent, to US$1,986.1 million (2004: US$2,054.6 million), principally reflecting the effect of an 8.0 per cent depreciation in average rupiah exchange rate notwithstanding the approximately 4.7 per cent increase in Indofood's turnover in rupiah terms. First Pacific's continuing business interests improved their operating performance in 2005, recording profit contributions totaling US$154.3 million (2004: US$141.1 million), an increase of 9.4 per cent. Recurring profit marginally increased to US$117.2 million, from US$116.8 million in 2004. The Group recorded US$18.5 million (2004: US$15.9 million) net foreign exchange and derivative losses principally due to a US$25.4 million loss on revaluation of option element embedded in Head Office's Exchangeable Notes and foreign exchange translation differences on its unhedged foreign currency denominated borrowings, and US$4.3 million (2004: US$23.0 million) of net non-recurring gains. First Pacific recorded a net profit for 2005 of US$103.0 million, a 16.9 per cent lower than the 2004's net profit of US$123.9 million, which is mainly attributable to the non-cash loss of US$25.4 million on revaluation of option embedded in the Exchangeable Notes as further analyzed in the Equity Market Risk section of the Financial Review on pages 36 and 37.

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.

Exchange rates against the U.S. dollar At 31 December	**2005**	2004	One year change
Closing			
Peso	**53.09**	56.13	+5.7%
Rupiah	**9,830**	9,290	–5.5%

Exchange rates against the U.S. dollar For the year ended 31 December	**2005**	2004	One year change
Average			
Peso	**54.99**	56.12	+2.1%
Rupiah	**9,756**	8,978	–8.0%

In 2005, the Group recorded net foreign exchange and derivative losses of US$18.5 million including a US$25.4 million loss on revaluation of option element embedded in Head Office's Exchangeable Notes and US$6.9 million gains on foreign exchange translation differences on its unhedged foreign currency denominated borrowings principally as a result of appreciation of the peso, partly offset by the effect of depreciation of the rupiah. The foreign exchange and derivative losses may be further analyzed as follows:

US$ millions	**2005**	2004
Head Office	**(25.4)**	–
Indofood	**(6.1)**	(11.9)
PLDT	**12.8**	(3.5)
Others	**0.2**	(0.5)
Total	**(18.5)**	(15.9)

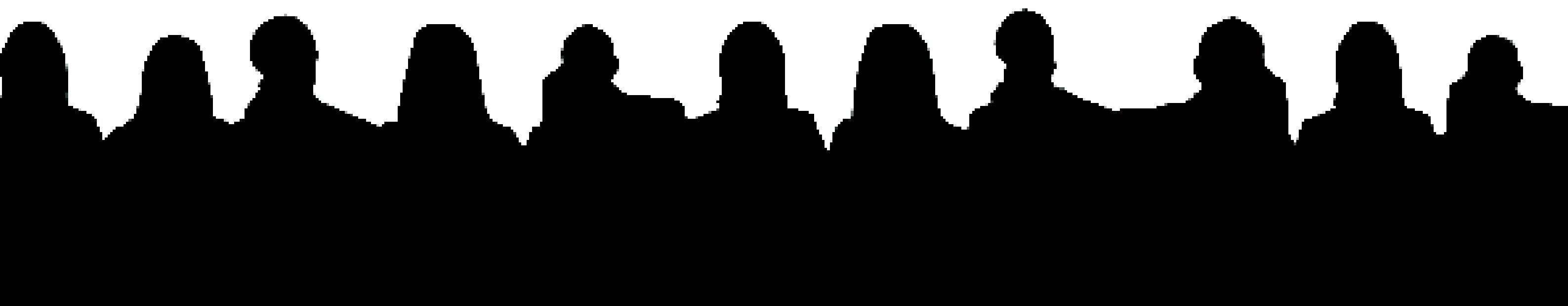
PLDT

PLDT's operations are principally denominated in peso, which averaged Pesos 54.99 (2004: 56.12) 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 the Philippine GAAP and Hong Kong GAAP being based largely on IFRSs 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.

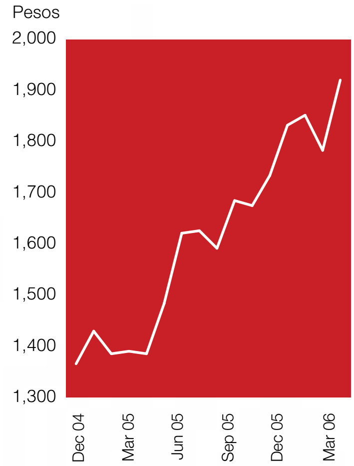
Peso millions	**2005**	2004 (Restated)
Net income under Philippine GAAP	**34,112**	28,031
Preference dividends[i]	**(1,427)**	(1,527)
Net income attributable to common shareholders	**32,685**	26,504
Differing accounting treatments[ii]		
– Reclassification of non-recurring items	**–**	1,345
– Reversal of effects upon adoption of HKAS 39	**–**	(2,316)
– Others	**(336)**	417
Intragroup items[iii]	**300**	300
Adjusted net income under Hong Kong GAAP	**32,649**	26,250
Foreign exchange and derivative (gains)/losses[iv]	**(2,859)**	813
PLDT's net income as reported by First Pacific	**29,790**	27,063
US$ millions		
Net income at prevailing average rates for 2005: Pesos 54.99 and 2004: Pesos 56.12	**541.7**	482.2
Contribution to First Pacific Group profit, at an average shareholding of 2005: 24.4% and 2004: 24.3%	**132.2**	117.1

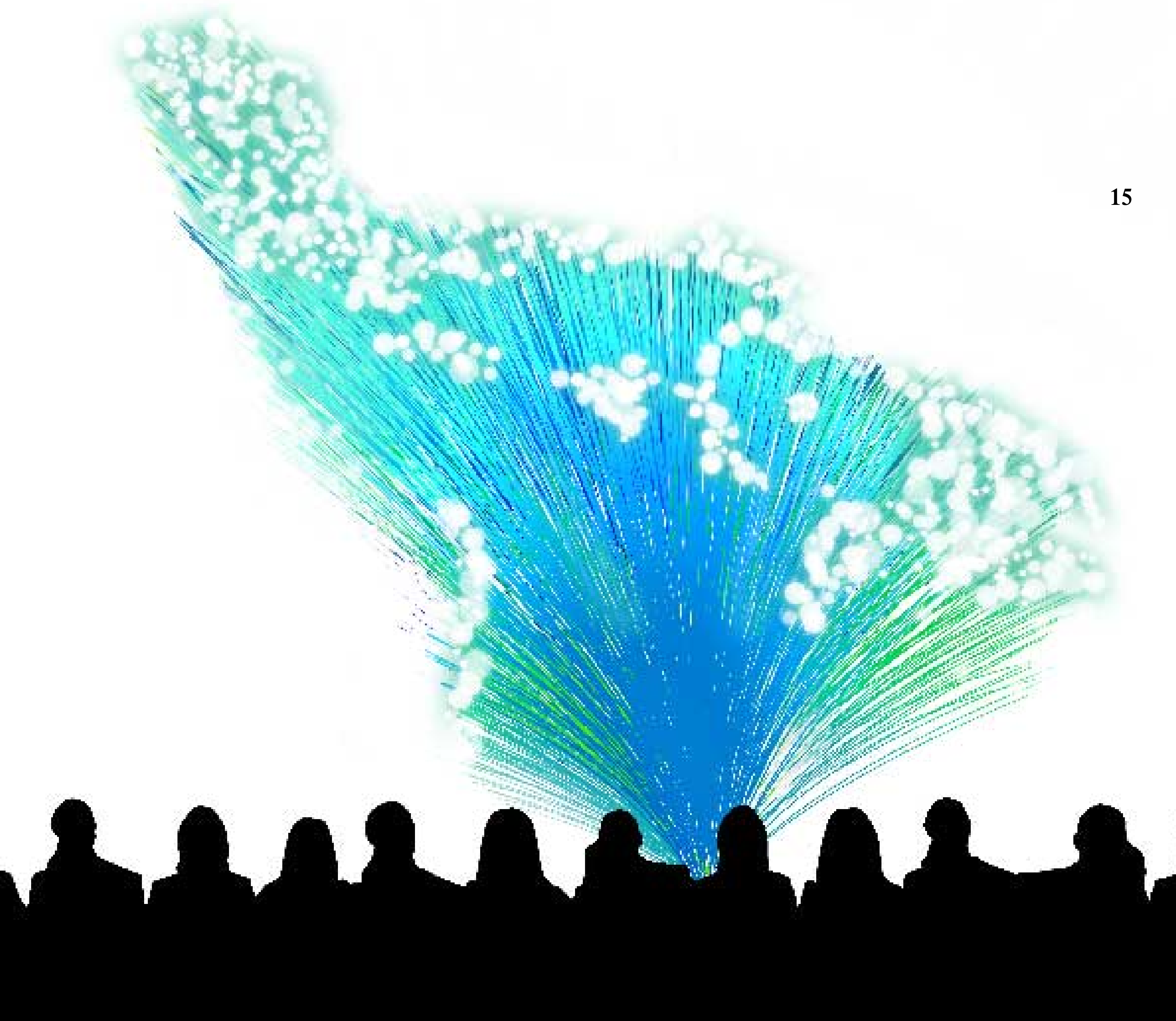
(i) First Pacific presents net income after deduction of preference dividends.
(ii) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP. The principal adjustments include:
- Reclassification of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. In 2004, asset impairment provisions and others of Pesos 1.3 billion were excluded and presented separately as non-recurring items.
- Reversal of effects upon adoption of 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.

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





An analysis of PLDT's contribution to the First Pacific Group, adjusted for Hong Kong GAAP and translated into U.S. dollars, follows.

	Turnover			Profit		
US$ millions	**2005**	2004	% change	**2005**	2004 (Restated)	% change
Wireless	**1,357.9**	1,229 .8	+10.4	**714.6**	503.8	+41.8
Fixed Line	**903.0**	864.0	+4.5	**133.7**	314.8	-57.5
ICT*	**53.7**	37.1	+44.7	**1.8**	14.9	-87.9
Inter-segment elimination	**(113.3)**	(77.2)	+46.8	**–**	–	–
Total	**2,201.3**	2,053.7	+7.2			
Segment result				**850.1**	833.5	+2.0
Net borrowing costs				**(219.1)**	(217.1)	+0.9
Share of profits less losses of associates				**0.1**	(1.3)	–
Profit before taxation				**631.1**	615.1	+2.6
Taxation				**(57.0)**	(101.7)	-44.0
Profit for the year				**574.1**	513.4	+11.8
Minority interest				**(6.7)**	1.3	–
Profit attributable to equity holders				**567.4**	514.7	+10.2
Preference dividends				**(25.7)**	(32.5)	-20.9
Profit attributable to ordinary shareholders				**541.7**	482.2	+12.3
Average shareholding (%)				**24.4**	24.3	–
Contribution to group profit				**132.2**	117.1	+12.9

* *Information and Communications Technology*

Strong Wireless and Stable Landline Performance in 2005

PLDT contributed profits of US$132.2 million to First Pacific in 2005, an increase of 12.9 per cent over US$117.1 million in 2004. PLDT represented 85.7 per cent of First Pacific's 2005 contribution from operations. PLDT's tremendous success underscores First Pacific's ability to drive the transformation of a company into a highly successful, profitable operation in an industry that requires high capital investment and in a country where the mass population requires affordable telecommunications services.

The combination of a highly profitable wireless business and its stable fixed line operation enabled PLDT to improve its free cash flows by 40.1 per cent, to US$931.8 million in 2005 (2004: US$665.1 million). Approximately 80 per cent of this amount was employed to reduce consolidated debts by US$713 million, ahead of PLDT's previously stated target of US$500 million. The PLDT Group's consolidated debt balance has been reduced to a nominal value of US$2.1 billion compared with almost US$3.8 billion as of the end of 2002. As of the end of 2005, PLDT's debt to EBITDA and debt to free cash flow ratios improved to 1.4 times and 2.2 times respectively.

PLDT's success enabled its board to approve a final dividend of Pesos 28 (U.S. 51 cents) per share to common shareholders bringing the total dividend for 2005 to Pesos 70 (US$1.27) per share, representing a payout ratio of approximately 40 per cent of 2005 core earnings. PLDT closed 2005 as the single largest capitalized company on the Philippine Stock Exchange at US$6,249 million.

Wireless: Market Leader and Innovator

PLDT Group's wireless segment was the key driver for 2005's strong performance. Wireless service revenues for 2005 increased by 10.4 per cent to US$1,357.9 million (2004: US$1,229.8 million) mainly as a result of a 13 per cent increase in wireless data revenues. The growth in data revenues were driven by the growing popularity of promotions launched in 2005, particularly *Smart 25⁸ Unlimited Text* service. Consolidated wireless EBITDA improved by 15.1 per cent to US$900.2 million (2004: US$782.3 million) and EBITDA margins improved to 66 per cent (2004: 64 per cent). Capital expenditure of US$160.0 million during the year enabled Smart to expand its nationwide presence to 4,305 GSM cell sites and 5,982 base stations, covering over 99 per cent of the total population. Total cellular subscriber base as at the end of 2005 grew by 1.2 million (net of churn), to 20.4 million, representing a market share of 59 per cent. This net subscriber addition takes into account the disconnections arising from the termination of SIM-swapping activities in 2005.

PLDT's wireless's product and service offerings cover a broad spectrum of demographic and market segments. Wireless services consist of wireless voice communications, wireless data communications (primarily through text messaging) and a variety of other value-added services. Value-added promotion *Smart 25⁸* was tailored to meet market demand for "bucket" type or fixed rate plans for voice and text services. In response to the continued high demand for unlimited and high network quality wireless services, Smart recently launched a new variant of *Smart 25⁸ Unlimited Text* as well as *Smart Load "All Text"*. *Smart Wi-Fi*, an innovative wireless broadband service launched in June 2005, has already attracted about 25,000 subscribers as of the end of 2005. Smart has over 1,000 wireless broadband capable base stations which allow very affordable, high-speed Internet services to customers particularly in areas with limited or no available DSL service.

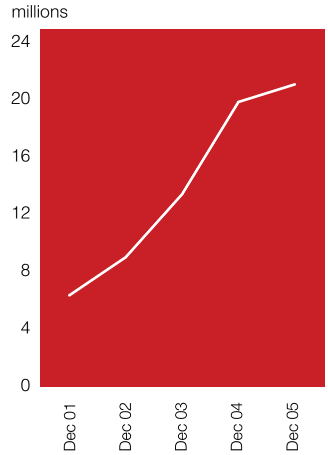
As of the end of 2005, the cellular penetration rate in the Philippines is estimated to have reached approximately 41 per cent. In this respect, Smart is increasing its focus on developing superior content and value-added services to encourage usage from its broad base of subscribers while continuing to drive subscriber growth at the lower income segments.

PLDT Group's capability to deliver rich and varied contents was accelerated by the 3G service license awarded to Smart by the Philippines' National Telecommunications Commission in December 2005. After a rigorous diligence period, Smart was granted a "perfect score" by the Philippine regulators, in its 3G capability. On Valentines' Day 2006, Smart launched its 3G service on a free-trial basis in the Philippines. Subscribers using Smart's network with 3G handsets in selected key areas may have access to services such as video calling, video streaming, high-speed Internet browsing and special 3G content downloading. In addition, the strategic partnership entered into with DoCoMo early this year grants Smart the exclusive right to offer DoCoMo's *i-mode*™ service to its subscribers.

Fixed Line: Stable Growth

PLDT's Fixed Line business reported revenues of US$903.0 million, resulting from a 46 per cent increase in data revenues which more than offset declines in its traditional long distance voice revenues. This is an improvement of 4.5 per cent over its 2004 revenues of US$864.0 million. Fixed Line EBITDA (excluding contributions from Smart) improved by 11.7 per cent to US$525.6 million (2004: US$470.4 million) while the EBITDA margin increased to 58 per cent from last year's 54 per cent. Depreciation expenses increased to US$367.3 million (2004: US$180.0 million) reflecting estimated useful lives adjustment made to certain fixed assets during the process of upgrading the system to the Next Generation Network.

Smart GSM Systemwide Subscriber Numbers



The improvement in fixed line performance was attributed to an expanding broadband business. Since First Pacific's investment in 1998, strategic goals for PLDT's fixed line business have included stabilizing its revenues on a year-on-year basis, while building a vibrant technology platform capable of offering new products and services, and incorporating full redundancy. Those goals were manifested in 2005's performance, which saw PLDT's DSL broadband subscriber base grow to approximately 89,000 with another 380,000 subscribers using its high-speed dial-up internet service. PLDT is the largest broadband service provider in the Philippines.

In order to promote higher fixed line take up, management also sought to introduce a number of marketing and pricing schemes designed to increase fixed line usage and provide better value to subscribers. In 2005, PLDT recorded, for the first time in four years, net additions for its postpaid fixed line service of 7,700 lines.

Information and Communications Technology: Expanding Potential

ePLDT, the information and communications technology (ICT) arm of PLDT, is a broad-based integrated ICT operator and service provider. Its principal operations include an Internet data center under the brand name *Vitro™*; call centers through Vocativ, Parlance and Ventus; and internet and gaming operations provided through subsidiaries including Netopia, Infocom, Airborne Access and netGames.

ePLDT reported a 44.7 per cent increase in revenues to US$53.7 million for 2005, reflecting strong growth in its various business segments. Call centers represent a growth area for the PLDT group, and the industry has grown exponentially in recent years with the Philippines becoming an increasingly attractive site for business process outsourcing. Consolidated call center revenues increased by 52 per cent to US$35.4 million resulting from higher capacity utilization and higher prices charged for additional service demand. ePLDT is one of the largest outsourced call center operators in the Philippines. Plans are underway to expand the present seat capacity of 3,347 to more than 6,000 by the end of 2006, which will further strengthen its market leadership in the Philippines.

Other revenue units of ePLDT, including its retail Internet café business, *Netopia™* and its hosted data center, *Vitro™*, also experienced substantial business growth. Their combined revenues improved by 27 per cent to US$18.3 million. Netopia operates the largest Internet café chain in the Philippines, with 181 outlets.

ePLDT expanded its online gaming business netGames by acquiring a 60 per cent interest in Level Up's Philippines subsidiary. The merging of these two businesses is expected to strengthen ePLDT's position as the market leader in the online gaming industry in the country.

2006 Outlook: Enhancement and Evolution

In the seven years since First Pacific acquired its ownership interest in PLDT, the company has reinvested approximately US$2.7 billion in capital expenditure, the largest among Philippines technology companies. Such investments are key to ensuring that everyone in the Philippines has access to affordable telecommunications products and services.

The PLDT Group continues to upgrade its network which will enable it to offer a growing range of innovative value-added and broadband services with network infrastructure now capable of cheaper and faster transmission of voice, video and data. In particular, the expansion of PLDT Group's fixed and wireless broadband facilities, complemented by its growing base of internet cafes, will allow PLDT Group to offer broadband services in more areas at various speed and price points that are designed to attract a broad base of internet users. ePLDT's recent acquisition of a 60 per cent interest in Level Up Philippines, coupled with its other investments, is also anticipated to provide the Group access to rich and compelling content that will be made available to both fixed line and wireless subscribers. In addition, while 3G services in the country will initially be limited to the high-end market until such time as handset prices come down, PLDT Group is rapidly building out its 3G network in key areas while encouraging subscribers to use the service for high-speed internet browsing, video streaming and video calling.

The investments that PLDT Group is making are expected to further strengthen the group's capability to address the challenging operating environment it continues to face. PLDT management has stated that 2006 is a year to lay the foundation for future growth. While PLDT management expects that 2006 core earnings will be benign, cash flows will remain robust. In this respect, PLDT remains committed to improve shareholder returns and aims to increase its dividend payout to at least 50 per cent of 2006 core earnings and to reduce debts further by US$300 million.

Indofood

Indofood's operations are principally denominated in rupiah, which averaged Rupiah 9,756 (2004: 8,978) 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.

Rupiah billions	2005	2004 (Restated)
Net income under Indonesian GAAP	**124**	387
Differing accounting treatments[(i)]		
– Reclassification of non-recurring items	**55**	–
– Foreign exchange accounting	**54**	54
– Gain on revaluation of plantations	**67**	8
– Others	**(75)**	(74)
Adjusted net income under Hong Kong GAAP	**225**	375
Foreign exchange and derivative losses[(ii)]	**335**	208
Indofood's net income as reported by First Pacific	**560**	583
US$ millions		
Net income at prevailing average rates for 2005: Rupiah 9,756 and 2004: Rupiah 8,978	**57.4**	64.9
Contribution to First Pacific Group profit, at an average shareholding of 2005: 51.5% and 2004: 51.5%	**29.6**	33.4

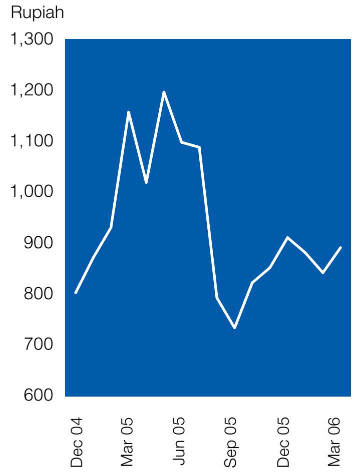
(i) Differences in accounting treatment under Indonesian GAAP, compared with Hong Kong GAAP. The principal adjustments include:
- Reclassification of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 2005 of Rupiah 55 billion losses (2004: Nil) represents Rupiah 146 billion of manpower rightsizing costs, partly offset by Rupiah 91 billion goodwill compensation received in connection to the establishment of a joint venture entity.
- 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.
- Gain on revaluation of plantations: Under Indonesian GAAP, Indofood measures its plantations (biological assets) on historical cost basis. HKAS 41 "Agriculture" 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 year.

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

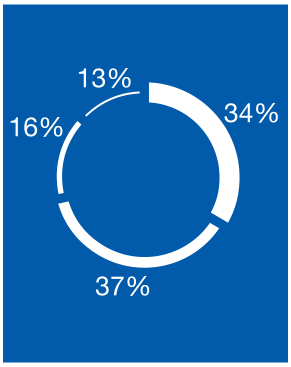
An analysis of Indofood's contribution to the First Pacific Group, adjusted for Hong Kong GAAP and translated into U.S. dollars, follows.

	Turnover			Profit		
US$ millions	**2005**	2004	% change	**2005**	2004 (Restated)	% change
Flour	**787.3**	814.1	-3.3	**48.5**	57.5	-15.7
Consumer Branded Products	**730.3**	765.5	-4.6	**65.2**	73.9	-11.8
Edible Oils and Fats	**474.9**	571.3	-16.9	**83.5**	91.1	-8.3
Distribution	**242.8**	202.7	+19.8	**0.1**	2.6	-96.2
Inter-segment elimination	**(311.9)**	(357.8)	-12.8	**–**	–	–
Total	**1,923.4**	1,995.8	-3.6			
Segment result				**197.3**	225.1	-12.4
Net borrowing costs				**(84.8)**	(91.1)	-6.9
Share of profits less losses of associates				**(4.2)**	(1.8)	+133.3
Profit before taxation				**108.3**	132.2	-18.1
Taxation				**(38.5)**	(47.8)	-19.5
Profit for the year				**69.8**	84.4	-17.3
Minority interest				**(40.2)**	(51.0)	-21.2
Contribution to group profit				**29.6**	33.4	-11.4

Indofood Share Price Performance



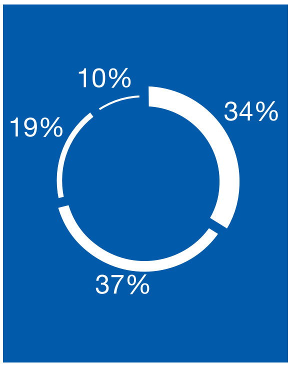
Indofood Turnover 2005*



	US$ millions
Flour	662.2
Consumer Branded Products	703.8
Edible Oils and Fats	314.6
Distribution	242.8
Total	**1,923.4**

*After inter-segment elimination

Indofood Turnover 2004*



	US$ millions
Flour	666.7
Consumer Branded Products	744.5
Edible Oils and Fats	382.6
Distribution	202.0
Total	**1,995.8**

*After inter-segment elimination

Indofood contributed US$29.6 million to the Group in 2005, a reduction of 11.4 per cent from its 2004 contribution of US$33.4 million. The unfavorable macroeconomic climate, weak currency, increased fuel costs and more intense competition in the food sector in Indonesia placed considerable pressure on Indofood's performance. The company recorded a 3.6 per cent decrease in consolidated revenue in U.S. dollar terms to US$1,923.4 million (2004: US$1,995.8 million) although in rupiah terms, Indofood recorded a 4.7 per cent growth in revenue, of which approximately 83 per cent were contributed from its three principal business segments – noodles, flour and edible oils and fats.

However, Indofood maintained its leading market share in key product categories: a 74 per cent share of the noodles market; a 65 per cent share of flour; a 42 per cent share of branded cooking oil; a 59 per cent share of the margarine and shortening market, and a 59 per cent share of the nutrition and special food market. Despite its strong market position in most of its business units, the entry of new competitors, particularly to the noodles division, has prompted a process of restructuring and reorganization which is ongoing. This process has been designed to improve efficiency, to identify new growth and to expand Indofood's cross-organizational functionalities and further diversify the company's revenue base.

Bogasari

Indofood's Bogasari group comprises its flour and pasta production businesses. Bogasari can support an annual production capacity of 3.8 million tons of flour and its products are distributed primarily under the *Cakra Kembar*, *Segitiga Biru* and *Lencana Merah* brand names, which are widely recognized by consumers in Indonesia. During 2005, it reported a turnover of US$787.3 million, an decrease of 3.3 per cent from the 2004 revenue of US$814.1 million. This resulted from a decline in flour volume although selling price increased by 6.0 per cent. Bogasari's turnover accounted for 34.4 per cent (2004: 33.4 per cent) of Indofood's total sales.

Bogasari recorded a sales volume decline of 3.3 per cent in its flour business to 2.3 million tons in 2005 principally due to lower-priced flour products being imported into Indonesia. During 2005, however, gross margins on flour slightly improved to 15.5 per cent (2004: 15.1 per cent) reflecting increase in selling price, improvements in productivity and cost efficiency. Bogasari has increased its research and development efforts since deregulation in 1999 with the introduction of new products for different end user market segments.

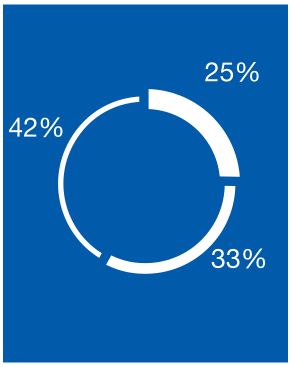
The plan of separately listing Bogasari is on hold as the current equity market environment in Indonesia is not sufficiently favorable to reflect Bogasari's underlying value. Management aims to maintain its market leading position in Indonesia by optimizing Bogasari's supply chain and infrastructure potential. It also plans to extend revenue base and market reach by expanding non-wheat products and services, and overseas distribution.

Consumer Branded Products

Noodles is the largest of Indofood's operating divisions, as well as the largest in the instant noodle segment in Indonesia. In addition to the basic noodle production operations, Indofood's noodles business also comprises food ingredients and packaging businesses which offer a supply chain to its instant noodle operations. It offers some 130 noodle varieties to the retail marketplace, covering high-end, middle and lower-priced categories. Indofood's primary noodle product is fried and soup-style instant noodles, and its most popular brands include *Indomie*, *Sarimi* and *Supermi*. Its value-added products including instant noodles in cups, rice vermicelli *Pop Bihun* and instant pasta *Pazto*. With 14 production facilities located across Indonesia, Indofood has an annual production capacity of 13.5 billion packs.

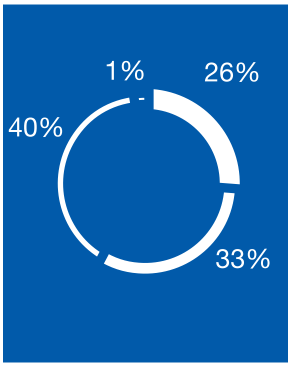
During 2005, sales volumes reached 9.5 billion packs, a decline of 4.0 per cent from the 9.9 billion packs sold in 2004. Sales turnover for the year was US$633.3 million, a reduction of 4.5 per cent from the US$663.0 million turnover in 2004, reflecting fierce competition in the lower-priced products market. Consequently, gross margins reduced to 22.9 per cent versus the 26.2 per cent recorded in 2004, as the "buy 5 get 1 free" promotional activities was continued to defend market share. This promotion was discontinued in March 2006.

Indofood
Operating Profit 2005



	US$ millions
Flour	48.5
Consumer Branded Products	65.2
Edible Oils and Fats	83.5
Distribution	0.1
Total	**197.3**

Indofood
Operating Profit 2004



	US$ millions
Flour	57.5
Consumer Branded Products	73.9
Edible Oils and Fats	91.1
Distribution	2.6
Total	**225.1**

Food seasoning products include soy, chili and tomato sauces, a range of powdered condiments and instant recipe mixes. Since 2001, Indofood has introduced more than 80 new products, and provides the widest range of food seasoning products available from any single manufacturer in Indonesia. This segment recorded a turnover of US$30.4 million in 2005, a decrease of 22.4 per cent compared with US$39.2 million reported for 2004, due to a combination of lower average selling prices and weaker sales volume.

In April 2005, Indofood started a joint venture with Nestlé S.A. namely, PT Nestlé Indofood Citrarasa Indonesia (NICI) to market culinary products in Indonesia of both Indofood and Nestlé. This provides an opportunity to combine Nestlé's expertise in marketing and research with Indofood's skill in producing food seasonings and distribution. However, the terms of the new joint venture require products to be sold to NICI on a "cost-plus" basis, with a resulting decline in average selling price.

Indofood is the leading manufacturer of branded modern packaged ***snack foods*** in Indonesia. Its produces potato chips and extruded products such as puffs and chocolate-coated snacks, which are sold under various brand names, such as *Chiki*, *Cheetos*, *Chitato*, *Lays*, *JetZ*, *Tenny* and *Tradia*. In U.S. dollar term, turnover for 2005 fell 4.9 per cent to US$30.9 million (2004: US$32.5 million). In rupiah term, turnover increased by 3.1 per cent as this segment experienced better sales mix.

Indofood's ***nutrition and special food*** products are distinguished from others in the Indonesian baby food market by the use of adapted traditional Indonesian ingredients, such as brown rice and mung beans. Its principal baby food brands are *Promina* and *SUN*. Turnover for 2005 improved by 15.9 per cent to US$35.7 million (2004: US$30.8 million) reflecting both increases in sales volume and average selling prices.

Edible Oils and Fats

Indofood's Intiboga Sejahtera is among the largest producers of cooking oil, margarine and shortenings in Indonesia, offering a wide range of branded products – including *Bimoli*, *Sunrise*, *Delima*, *Cornola* – for the retail market, and bulk products in large quantity for the industrial and institutional markets.

This division reported a turnover of US$474.9 million in 2005, a decrease of 16.9 per cent from US$571.3 million in 2004, as lower-cost competitors sought to achieve rapid market share at the expense of profit margins. Sales volume reached almost 500 thousand tons, an increase of 3.3 per cent from the 482 thousand tons sold in 2004.

During 2005, Indofood acquired approximately 35,000 hectares of plantation area which will be developed for oil palm trees. A key competitive advantage for Indofood remains its ability to source around 50 per cent of its crude palm oil requirements from its 95,730 hectares of plantation.

Distribution

Indofood's consumer food products are distributed to over 160,000 outlets throughout Indonesia. Despite the competitive challenges faces by Indofood, Distribution reported a 19.8 per cent increase in turnover to US$242.8 million in 2005 which accounted for 12.6 per cent of Indofood's consolidated turnover.

As part of the ongoing internal restructuring and re-engineering process, Indofood management have sought to expand the company's distribution reach by opening up stock points to service various districts in the country. Up to the end of 2005, more than 250 stock points were established in selected population areas which reduced times and volumes required for transport in the respective areas, and enabled the company to better understand consumers' preference in each specific location. During the year, the reorganized Distribution division generated encouraging results. The satellite-linked information technology system and the stock point strategy enable Indofood's products to reach the more underserved market regions. To continue the success of the distribution network reform, Indofood plans to significantly increase stock points in 2006.

2006 Outlook

On 2 March 2006, Indofood obtained a favorable ruling from the UK court to provide it a basis to redeem its Eurobonds at par. Indofood will use funds from operations and bank loans to redeem the outstanding Eurobonds of US$143.7 million as at 31 March 2006.

Indofood management is cognizant of the pressures new competition has placed on its businesses. The strategic repositioning program implemented since early 2004 has resulted in Indofood becoming a leaner organization with more focus on improving operational activities. The company will continue to streamline its supply and value chains, leverage its existing strong brands to further strengthen its leading market position, and re-engineer company procedures.

Metro Pacific

Metro Pacific's operations are principally denominated in peso, which averaged Pesos 54.99 (2004: 56.12) 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 IFRSs 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.

Peso millions	**2005**	2004 (Restated)
Net income/(loss) under Philippine GAAP	**194**	(242)
Differing accounting treatments[(i)]		
– Reclassification/reversal of non-recurring items	**(623)**	(726)
– Others	**–**	283
Intragroup items	**–**	3
Adjusted net loss under Hong Kong GAAP	**(429)**	(682)
Foreign exchange and derivative (gains)/losses[(ii)]	**(9)**	17
Metro Pacific's net loss as reported by First Pacific	**(438)**	(665)
US$ millions		
Net loss at prevailing average rates for 2005: Pesos 54.99 and 2004: Pesos 56.12	**(8.0)**	(11.8)
Contribution to First Pacific Group profit, at an average shareholding of 2005: 75.5% and 2004: 79.2%	**(6.0)**	(9.4)

(i) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP. The principal adjustments include:
- Reclassification/reversal of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 2005 of Pesos 0.6 billion principally relate to reversal of excess provision for tax and other liabilities, gains realized from various debt reduction and restructuring exercises, and agreed one-time adjustments made to amounts owed to certain creditors. Adjustment for 2004 of Pesos 0.7 billion relate to the reclassification/reversal of provision releases for Metro Pacific's investment in a shipping subsidiary and gains realized from various debt reduction and restructuring exercises.

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

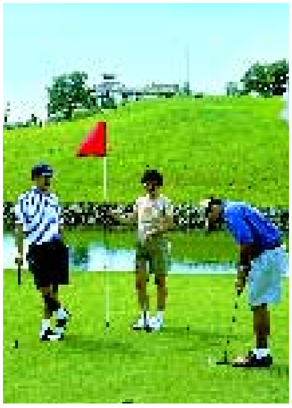
An analysis of Metro Pacific's contribution to the First Pacific Group, adjusted for Hong Kong GAAP and translated into U.S. dollars, follows.

	Turnover			Profit		
US$ millions	**2005**	2004	% change	**2005**	2004 (Restated)	% change
Property						
– Landco	**17.6**	15.1	+16.6	**1.3**	3.0	-56.7
– Pacific Plaza Towers	**5.3**	11.6	-54.3	**0.3**	0.1	+200.0
Subtotal	**22.9**	26.7	-14.2	**1.6**	3.1	-48.4
Nenaco	**39.8**	32.1	+24.0	**(3.5)**	(2.9)	+20.7
Corporate overhead	**–**	–	–	**(2.1)**	(1.1)	+90.9
Total	**62.7**	58.8	+6.6			
Segment result				**(4.0)**	(0.9)	+344.4
Net borrowing costs				**(2.4)**	(9.2)	-73.9
Share of profits less losses of associates				**0.1**	(0.1)	–
Loss before taxation				**(6.3)**	(10.2)	-38.2
Taxation				**(0.9)**	(0.8)	+12.5
Loss for the year				**(7.2)**	(11.0)	-34.5
Minority interest				**1.2**	1.6	-25.0
Group share of loss				**(6.0)**	(9.4)	-36.2

Metro Pacific contributed a loss of US$6.0 million in 2005, a significant improvement from its 2004 loss contribution of US$9.4 million. This improvement is principally due to the significant reduction in operating losses of ***Negros Navigation Co., Inc.*** (Nenaco), the substantial reduction of financing charges as debt settlement agreements were completed and one-time gains also realized from debt reduction agreements.

Five years after Metro Pacific entered a self-administered debt reduction and corporate rehabilitation program, Metro Pacific has successfully reduced its parent company bank debt from Pesos 11.7 billion (US$220.4 million) to Pesos 732 million (US$13.8 million). As of early 2006, various agreements in final stages of documentation would further reduce Metro Pacific's debt level to approximately Pesos 200 million (US$3.8 million).

Landco Pacific Corporation (Landco), a diversified property developer 51 per cent owned by Metro Pacific, reported a net profit of Pesos 62 million (US$1.1 million). Landco is preparing for an accelerated growth plan that seeks to expand its business activity significantly over the next five years. In 2005, joint-venture agreements were signed with a number of landowning groups for Landco to develop, brand, and market over 1,300 hectares of property located in prime areas across the Philippines.



Nenaco, a 99.0 per cent owned subsidiary of Metro Pacific, also recorded improved performance. After the commencement of a court-administered debt and business restructuring program in 2004, Nenaco reported an reduced 2005 net loss of Pesos 126 million (US$2.3 million). An aggressive campaign by new management to reduce costs and enhance operations resulted in vessels servicing additional routes, thus carrying improved passenger and cargo loads.

2006 Outlook

On 27 March 2006, Metro Pacific announced a recapitalization and reorganization plan to strengthen its capital base and reposition the company for new growth. The plan involves a reduction in capital by way of a reverse stock split of Metro Pacific shares to eliminate the deficit in Retained Earnings, a share swap of Metro Pacific shares for shares in a new corporate holding company, Metro Pacific Investments Corporation (MPIC), the listing of MPIC on the Philippine Stock Exchange and the simultaneous withdrawal of the Metro Pacific listing, and a Rights Issue expected to raise Pesos 2.7 billion (US$50.9 million) in new capital. The plan is expected to be completed by September 2006.

Should the plan be executed successfully, First Pacific and Ashmore Global Special Situations Funds 2 Limited and/or other funds managed by Ashmore Investment Management Limited would be MPIC's principal shareholders. MPIC will directly own a majority of Landco and Metro Pacific. MPIC will also be debt free, and capable of raising necessary funds to support its intended growth plans. Landco will be able to accelerate the diversification of its market reach and expansion in the property sector in the Philippines. MPIC will also actively seek investment opportunities, particularly in the infrastructure sector.

Level Up

First Pacific invested US$15 million for a 25.0 per cent interest in Level Up! International Holdings Pte. Ltd. (Level Up) in March 2005. First Pacific recorded a loss of US$1.5 million for its share of Level Up's post-acquisition loss, arising principally from the start up costs in its Brazilian and Indian operations. Level Up began commercial operations in Brazil in the first quarter of 2005 and will launch commercially in India in 2006.

In the Philippines, Level Up has achieved a market share of approximately 80 per cent of paying subscribers, despite the entry of several competitors. The company began commercial operations in late 2003 with Ragnarok (developed by Gravity Co. Ltd.) which remains the most popular game and continues to dominate the online game market. In 2005, Level Up decided to build on its extensive client base by launching new games for different segments of the market. The first new game, Rose Online, was commercially launched in September 2005. This is a 3-D massively multiplayer online role playing game (MMORPG) from Gravity. In the first quarter of 2006, the company launched another 3-D MMORPG, RF Online, developed by CCR Inc.; and plans to launch a leading Korean sports casual game, Free Style Online (developed by JCE Entertainment Co. Ltd.) in the second quarter of 2006. Other new games are also in the pipeline for 2006.

In February 2006, ePLDT, Inc., the Information and Communications Technology division of PLDT, acquired 60 per cent interest in Level Up's operation in the Philippines and plans to merge it with its online games operation netGames by the first quarter of 2007.

In Brazil, Ragnarok was commercially launched in February 2005 and is developing a good subscriber base. The company is planning to introduce new games such as Gunz (developed by Maiet Entertainment Inc.) and Grand Chase (developed by KOG Studios) to attract players from other significant segments. The company will also be distributing game CDs and CD keys for leading games by NCSoft, such as Lineage II, Guild Wars, City of Heroes and City of Villains.

In India, the company will start commercial operations of Ragnarok in the second quarter of 2006, although gradual growth is expected until the internet infrastructure and connectivity reach required levels over the next several years. The company continues to build its distribution networks in several key metropolitan areas and to establish alliances with key marketing and distribution partners.

2006 Outlook

The year 2006 will be a transition year for Level Up, as it begins to develop into a multi-game publisher with a diversified portfolio of games and multiple revenue sources. The company will focus on building upon its leadership position in three markets to leverage its multi-country economies of scale and strengthen relationships with leading game developers and publishers to ensure continuing access to good content. Significant investments will be made to consolidate its leadership position and bring compelling new content to its growing customer base.