FIRST PACIFIC

**First Pacific Company Limited**

Stock Code : 00142

# Create Long-term Value in Asia


# Annual Report

# 2010

# Corporate Profile

First Pacific is a Hong Kong-based investment management and holding company with operations located in Asia. Its principal business interests relate to Telecommunications, Infrastructure, Consumer Food Products and Natural Resources.

Listed in Hong Kong, First Pacific's shares are also available for trading in the United States through American Depositary Receipts.

As at 21 March 2011, First Pacific's economic interest in PLDT is 26.5%, in MPIC 55.6%, in Indofood 50.1% and in Philex* 31.3%.

First Pacific's principal investments are summarized on page 164.

* Two Rivers Pacific Holdings Corporation, a Philippine affiliate of First Pacific, holds an additional 15.0% interest in Philex.

## Vision

- Create long-term value in Asia

## Mission

- Active management
- Enhance potential
- Enrich lives

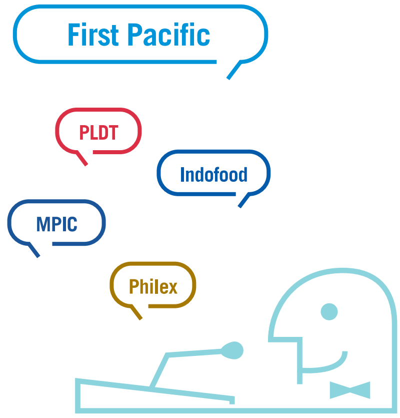
## Strategy

- Identify undervalued or underperforming assets with strong growth potential and possible synergies which bring strong cash flows
- Manage investments by setting strategic direction, developing business plans and defining targets
- Raise governance levels to world-class standards at the investee companies

## Contents

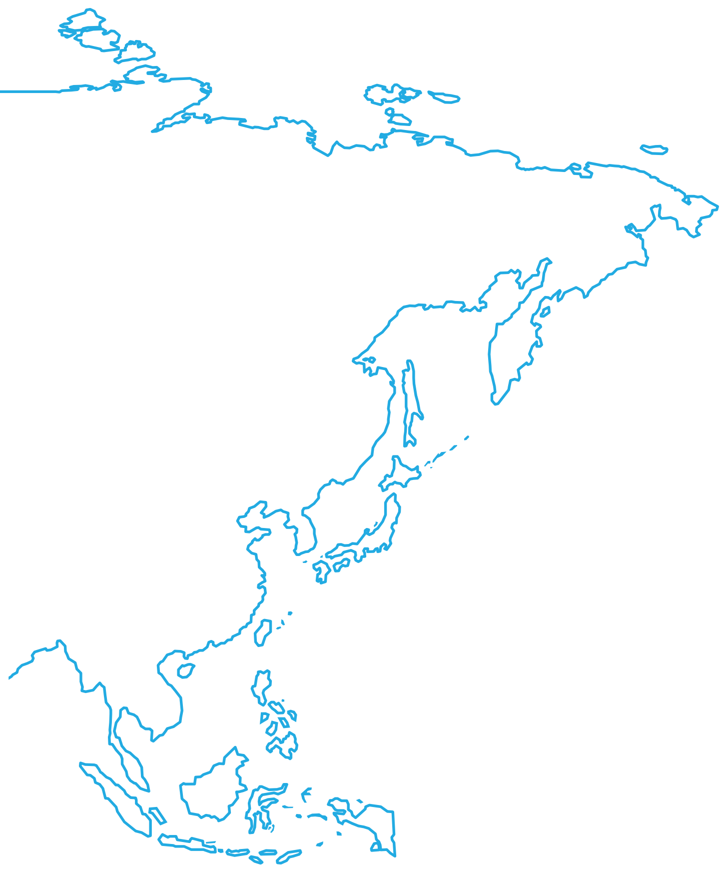
## Financial Performance

- Recurring profit increased 40% to US$402.1 million – record high profitability
- Profit contribution from operations increased by 41% to US$474.0 million – record high in value
- Full year dividend of U.S. 2.55 cents per share; 25% payout of recurring profit
- Adjusted NAV per share increased 25% to US$1.66
- Consolidated gearing ratio improved to 0.33 times from 0.67 times; Head Office gearing ratio increased to 0.46 times from 0.36 times




## Recurring Profit

| | |
|---|---|
| First Pacific | **+40%**<br>US$402.1 million |
| PLDT | **+2%**<br>Pesos 42.0 billion<br>(US$932.5 million) |
| Metro Pacific Investments | **+88%**<br>Pesos 3.9 billion<br>(US$85.6 million) |
| Indofood | **+73%**<br>Rupiah 3.0 trillion<br>(US$328.1 million) |
| Philex Mining Corporation | **+124%**<br>Pesos 4.2 billion<br>(US$92.1 million) |



# Ten-year Statistical Summary

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Results** (US$millions) | | | | | | | | | | |
| Turnover | **4,640.2** | 3,925.6 | 4,105.3 | 3,040.8 | 2,474.8 | 1,986.1 | 2,054.6 | 2,161.8 | 1,892.3 | 1,851.7 |
| Profit/(loss) for the year | **775.5** | 661.4 | 336.6 | 665.6 | 221.7 | 138.8 | 168.2 | 134.9 | 79.6 | (2,192.4) |
| Profit/(loss) attributable to owners of the parent | **403.7** | 401.6 | 200.8 | 504.8 | 164.5 | 103.0 | 123.9 | 74.1 | 38.2 | (1,797.7) |
| Recurring profit | **402.1** | 286.6 | 239.2 | 186.7 | 134.4 | 103.9 | 116.3 | 88.4 | 51.1 | 44.6 |
| Ordinary share dividends | **99.4** | 56.1 | 37.0 | 41.1 | 22.4 | 12.3 | – | – | – | – |
| **Per Ordinary Share Data** (U.S.cents) | | | | | | | | | | |
| Basic earnings/(loss) | **10.40** | 11.71 | 5.91 | 14.91 | 4.89 | 3.07 | 3.69 | 2.21 | 1.15 | (54.32) |
| Basic recurring earnings | **10.36** | 8.36 | 7.04 | 5.52 | 3.99 | 3.09 | 3.46 | 2.63 | 1.54 | 1.35 |
| Dividends | **2.55** | 1.54 | 1.15 | 1.28 | 0.70 | 0.39 | – | – | – | – |
| Equity/(deficit) attributable to owners of the parent | **65.99** | 49.64 | 35.17 | 35.09 | 18.18 | 12.00 | 7.14 | 1.60 | (0.81) | (4.87) |
| **Financial Ratios** | | | | | | | | | | |
| Return on average net assets (%) | **16.11** | 15.20 | 18.88 | 18.96 | 20.95 | 21.21 | 32.38 | 31.03 | 26.30 | 11.53 |
| Return on average equity attributable to owners of the parent (%) | **17.91** | 18.82 | 21.16 | 21.79 | 27.84 | 34.05 | 83.52 | 696.06 | N/A | 34.94 |
| Dividend payout ratio (%) | **24.72** | 19.57 | 15.47 | 22.01 | 16.67 | 11.84 | – | – | – | – |
| Dividend cover (times) | **4.05** | 5.11 | 6.46 | 4.54 | 6.00 | 8.45 | – | – | – | – |
| Interest cover (times) | **5.02** | 3.67 | 4.76 | 3.89 | 3.35 | 2.64 | 2.93 | 2.59 | 2.41 | 2.55 |
| Current ratio (times) | **1.85** | 1.37 | 0.87 | 0.94 | 1.21 | 1.45 | 1.42 | 1.71 | 1.02 | 0.82 |
| Gearing ratio (times) | | | | | | | | | | |
| - Consolidated | **0.33** | 0.67 | 1.06 | 0.68 | 0.83 | 1.12 | 1.45 | 2.12 | 2.46 | 2.84 |
| - Company | **0.46** | 0.36 | 0.47 | 0.35 | 0.16 | 0.11 | 0.10 | 0.12 | 0.15 | 0.09 |
| **Consolidated Statement of Financial Position Data** (US$millions) | | | | | | | | | | |
| Capital expenditure | **513.7** | 389.8 | 300.5 | 106.3 | 46.3 | 56.6 | 105.1 | 72.6 | 92.2 | 148.2 |
| Total assets | **10,914.1** | 9,397.3 | 7,199.0 | 5,221.1 | 2,883.5 | 2,347.1 | 2,168.7 | 2,213.5 | 2,469.5 | 2,186.4 |
| Net debt | **1,847.0** | 2,719.5 | 2,520.8 | 1,443.8 | 857.2 | 788.5 | 854.3 | 907.7 | 1,136.7 | 850.4 |
| Total liabilities | **5,302.0** | 5,358.2 | 4,823.8 | 3,098.1 | 1,850.7 | 1,640.4 | 1,577.6 | 1,785.7 | 2,007.1 | 1,886.9 |
| Net current assets/(liabilities) | **1,278.4** | 594.3 | (264.7) | (86.9) | 175.0 | 292.8 | 251.9 | 443.6 | 20.6 | (234.5) |
| Total assets less current liabilities | **9,409.3** | 7,797.0 | 5,123.3 | 3,665.1 | 2,034.8 | 1,697.0 | 1,571.2 | 1,589.4 | 1,456.0 | 899.1 |
| Equity/(deficit) attributable to owners of the parent | **2,575.2** | 1,916.2 | 1,130.1 | 1,131.3 | 582.7 | 382.8 | 227.4 | 51.1 | (25.7) | (152.8) |
| Total equity | **5,612.1** | 4,039.1 | 2,375.2 | 2,123.0 | 1,032.8 | 706.7 | 591.1 | 427.8 | 462.4 | 299.5 |
| **Other Information** (at 31 December) | | | | | | | | | | |
| Company's net debt (US$millions)(i) | **816.9** | 651.7 | 731.3 | 532.4 | 237.9 | 152.6 | 103.3 | 96.9 | 152.1 | 83.3 |
| Number of shares in issue (millions) | **3,902.4** | 3,860.3 | 3,213.4 | 3,224.1 | 3,204.8 | 3,188.8 | 3,186.0 | 3,186.0 | 3,186.0 | 3,139.8 |
| Weighted average number of shares in issue during the year (millions) | **3,880.4** | 3,428.5 | 3,397.7 | 3,384.9 | 3,365.5 | 3,358.9 | 3,358.1 | 3,358.1 | 3,322.5 | 3,309.4 |
| Share price (HK$) | | | | | | | | | | |
| - after rights issue | **7.000** | 4.740 | 2.552 | 5.740 | 3.833 | 2.846 | 1.969 | 1.603 | 0.664 | 0.911 |
| - before rights issue | **N/A** | N/A | 2.690 | 6.050 | 4.040 | 3.000 | 2.075 | 1.690 | 0.700 | 0.960 |
| Market capitalization (US$millions) | **3,502.2** | 2,345.9 | 1,108.2 | 2,500.7 | 1,659.9 | 1,226.5 | 847.6 | 690.3 | 285.9 | 386.4 |
| Number of shareholders | **4,608** | 6,202 | 4,983 | 4,736 | 4,989 | 5,167 | 5,321 | 5,452 | 5,576 | 5,581 |
| Number of employees | **70,525** | 68,416 | 66,452 | 62,395 | 50,087 | 46,693 | 49,165 | 46,951 | 44,820 | 48,046 |

N/A: Not applicable

(i) Includes the net debt of certain wholly-owned financing and holding companies

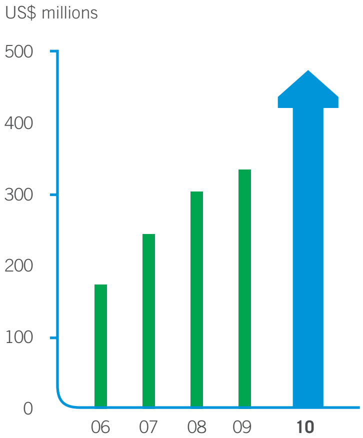
See pages 161 and 162 for a glossary of terms

Note: In December 2009, the Company completed a rights issue, offering its shareholders one rights share for every five existing shares held at a subscription price of HK$3.40 per rights share. Accordingly, the comparative amounts of (i) basic earnings/(loss) per share, (ii) basic recurring earnings per share, (iii) weighted average number of shares in issue during the year and (iv) share price (after rights issue) for 2001 to 2008 have been restated to reflect the effect of this rights issue in order to provide a more meaningful comparison.

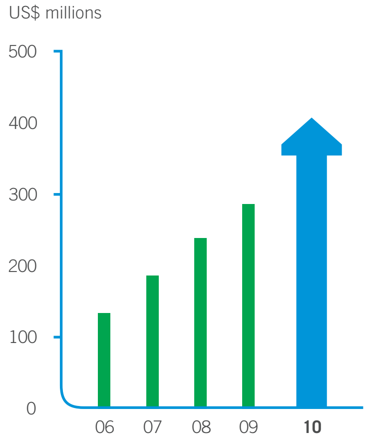
# Financial Highlights



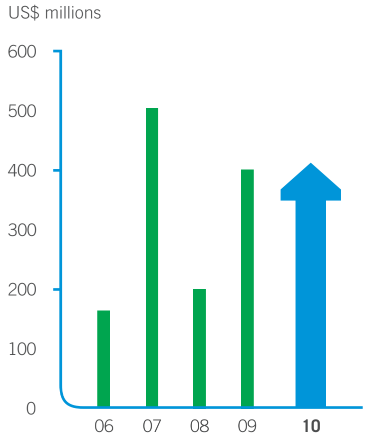
## Contribution from Operations



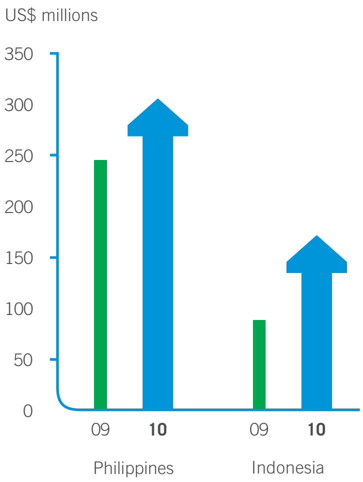

## Recurring Profit



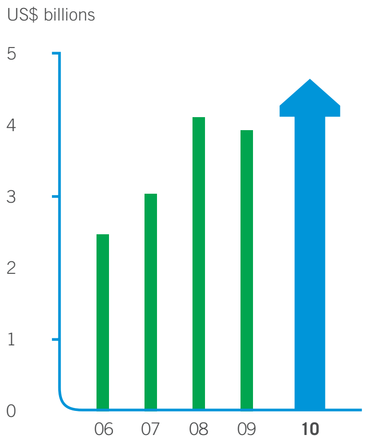

## Profit Attributable to Owners of the Parent



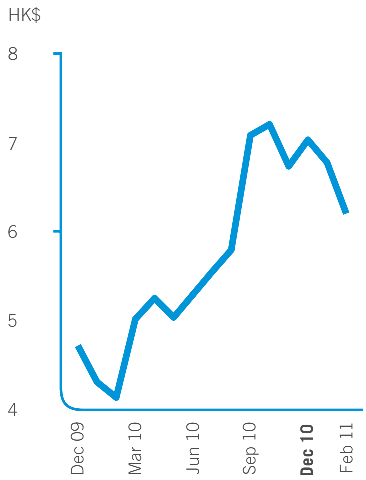

## Contribution by Country



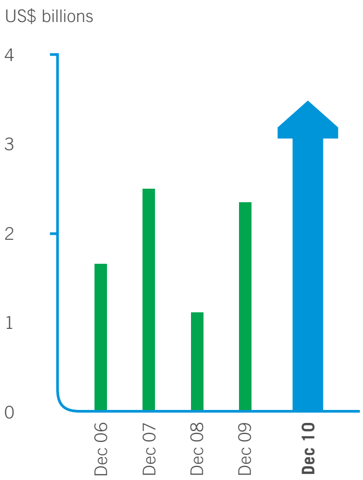

## Turnover



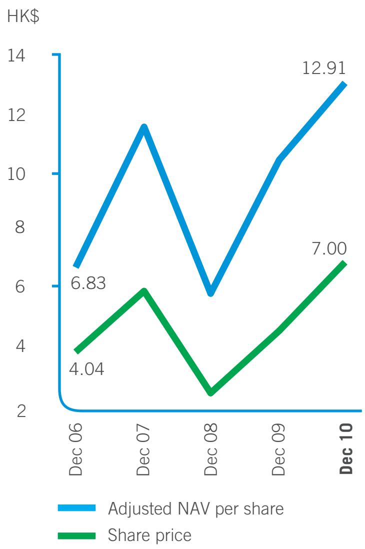

## Share Price Performance



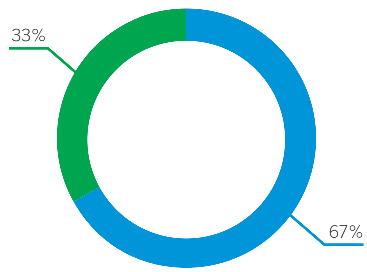

## Market Capitalization




## Share Price vs Adjusted NAV Per Share




## Adjusted NAV by Country 31 December 2010




| | US$ millions |
|---|---|
| Philippines | 4,891.8 |
| Indonesia | 2,383.6 |
| **Total** | **7,275.4** |

# Goals

FIRST PACIFIC

## Review of 2010 Goals

| Goal | Achievement |
|---|---|
| Promote the continuing growth in profitability across all group companies | **Achieved and ongoing**<br>All operating companies reported strong financial results in 2010, lifting First Pacific's recurring profit 40% to US$402.1 million. |
| Drive an increase in head office cashflow | **Achieved and ongoing**<br>The Head Office operating cash inflow increased 27% to approximately US$233 million as a result of higher cash dividend payments from the operating companies. Cash inflow going forward is expected to increase given PLDT's recommitment to paying out 70% of its recurring earnings plus a "look-back" approach, Indofood's 40% payout ratio, and 25% at Philex. In addition, the full-year dividend from MPIC, still in its growth stage, amounted to a payout ratio of 10% and can be expected to grow looking ahead. |
| Continue to explore investment opportunities in existing core businesses across the region | **Ongoing**<br>First Pacific continues to evaluate complementary investment opportunities in telecoms, infrastructure, consumer food products and natural resources in the emerging markets of Asia. We are very bullish about the economic prospects for our markets and are confident that forthcoming investments will be rewarding to the Company and its shareholders. |


## Goals for 2011

- Fortify PLDT's position of market leadership in telecommunications
- Invest in a new infrastructure project in the Philippines via MPIC
- Grow MPIC's toll road network by building roads and/or by investment in other toll road assets
- Continue moving into higher-margin products at Indofood
- Grow the plantation business so that Indofood become a net seller of crude palm oil ("CPO")
- Expand sources of production at Philex from just one mine, Padcal, to others, through organic growth and/or via acquisition
- Further explore Philex's hydrocarbon assets
- Continue to explore investment opportunities in existing core businesses across the region

PLDT

## Review of 2010 Goals

| Goal | Achievement |
|---|---|
| Achieve core net income for 2010 of over Pesos 41 billion | **Achieved**<br>Core net income increased by 2% to Pesos 42 billion (US$932.5 million) in the year, primarily from higher earnings contributions from Meralco, ePLDT/SPi and a lower tax charge. |
| Achieve continued growth of the broadband business in terms of subscribers and revenues, as a key driver to overall revenue growth in 2010 | **Ongoing**<br>Combined broadband subscribers – Digital Subscriber Line ("DSL") fixed and wireless – grew 25% to more than 2 million, accounting for approximately 58% of the broadband market in the Philippines. Total DSL, wireless broadband and internet service revenues rose 16% in the year to Pesos 16.9 billion (US$375.2 million) with DSL ARPU at approximately Pesos 1,137 (US$25.24) and net blended wireless ARPU at Pesos 413 (US$9.17). Broadband revenues accounted for 12% of total PLDT group service revenues in 2010. |
| Upgrade the fixed and wireless networks within a capex budget of Pesos 28.6 billion to support broadband growth and the group's new initiatives in the wireless business, including more aggressive voice offers | **Achieved and ongoing**<br>Capex reached Pesos 28.8 billion (US$639.4 million) in 2010 or approximately 20% of service revenues and consisted of investments for increased capacity and coverage to support higher broadband and voice usage, including: build-out of PLDT's second network for low-cost voice delivery; modernization of PLDT's core and access networks to improve operating and cost efficiencies; and continuing upgrade of the fixed-line network to the next generation network or NGN standard. |
| Complete the consolidation of SPi CRM's voice/customer interaction services and SPi's business process outsourcing/knowledge processing solutions business into one entity | **Achieved**<br>SPi CRM and SPi are now managed under SPi Global Holdings Inc. SPi CRM is well poised for future growth with the launch of three U.S.-based clients in the first quarter of 2011, a price increase agreed with its largest client and expansion of existing accounts. SPi's Healthcare and Content Solutions divisions are expected to grow by at least 15% in 2011 from existing and new clients. |
| Consolidate PLDT Communications and Energy Ventures, Inc.'s ("PCEV") (formerly Pilipino Telephone Corporation) interest in Meralco with MPIC's Meralco stake into Beacon Electric | **Achieved**<br>In March 2010, MPIC and PCEV completed the consolidation of their combined 28.2% interest in Meralco into Beacon Electric which is a special purpose company jointly owned by MPIC and PCEV. Beacon Electric subsequently exercised a call option to acquire an additional 6.6% interest in Meralco which increased its total interest in Meralco to 34.8%. Additionally, PCEV's current direct interest in Meralco is approximately 6.1%. |

## Goals for 2011

- Achieve core net income for 2011 of around Pesos 40.5 billion
- Achieve continued growth of the broadband business in terms of subscribers and revenues
- Fortify PLDT's position of having undisputed market leadership in network quality and customer experience, and focus on margins and profitability
- Upgrade the fixed and wireless networks within a capital expenditure budget of Pesos 34.4 billion for increased capacity and coverage

## Review of 2010 Goals

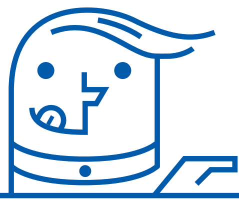
| Goal | Achievement |
|---|---|
| Complete the consolidation of MPIC's and Piltel's Meralco stake into Beacon Electric | **Achieved**<br>In March 2010, MPIC and PCEV (formerly Piltel) completed the consolidation of their combined 28.2% interest in Meralco into Beacon Electric. Beacon Electric subsequently exercised a call option to acquire an additional 6.6% interest in Meralco which increased its total interest in Meralco to 34.8%. An additional 6.1% stake held by PCEV is under negotiation for possible transfer into Beacon Electric. |
| Continue to grow billed volumes at Maynilad and minimize the impact of El Niño | **Achieved and ongoing**<br>Total billed water volume increased 7% to 373.8 million cubic meters from 350.1 million cubic meters while water service connections increased 11% to 903,682. To minimize the negative impact of water shortages, Maynilad opened the Putatan Water Treatment Plant in September 2010 with capacity quickly ramping up to 60 million liters per day ("MLD") and plans to increase it to 200MLD by 2013. Maynilad is further actively evaluating new water sources in partnership with Manila Water and the regulator. |
| Conclude further investments in the Southern Tollway system and conclude the negotiations for the SCTEX franchise. Secure equity at the Metro Pacific Tollways Corporation level in order to fund these expansion projects | **Achieved and ongoing**<br>In November 2010, the Bases Conversion and Development Authority granted Manila North Tollways Corporation ("MNTC") the franchise to operate and maintain the 94-kilometer Subic Clark Tarlac Expressway ("SCTEX") for 25 years and renewable for another 8 years to 2043. MPTC continues to evaluate expansion opportunities in Southern Luzon while awaiting word of a "Swiss Challenge" on its bid to build the 13.5-kilometer Segment 11 connecting the North Luzon and South Luzon Expressways. |
| Conclude the acquisition of the largest hospital in the Visayas region, complete the renovation of Makati Medical Center, finish redevelopment of Cardinal Santos Medical Center and build out additional doctors' clinics at Davao Doctors Hospital | **Achieved and ongoing**<br>The acquisition of a 51.0% interest in Riverside Medical Center, Inc. ("RMCI"), the largest hospital in Bacolod with bed capacity of 310, was completed in May 2010. This was followed six months later by an agreement to manage Our Lady of Lourdes Hospital Inc., increasing the number of hospital beds in the Healthcare Group to about 1,600. Renovation, redevelopment, upgrading of facilities and integration of the existing hospitals are on track. |
| Complete the takeover of Manila North Harbour | **Divested**<br>In June 2010, as a result of inconclusive negotiation with the proposed partner, MPIC divested its entire 35.0% interest in Manila North Harbour Port, Inc. to its joint venture partner Harbour Center Port Terminal, Inc. Investment costs fully recovered. |
| Continue evaluating promising infrastructure projects | **Ongoing**<br>MPIC continues to evaluate promising infrastructure opportunities in the Philippines such as airport and light rail projects. |

## Goals for 2011

- Grow billed volume while cutting non-revenue water to an average of 48% for the year. Fast-track expansion of the Putatan Water Treatment Plant and continue to explore alternative sources of water. Investigate opportunities to provide bulk water supply and distribution in other regions of the Philippines
- For the electricity business, finalize plans to enter power generation and continue preparation for retail electricity sales
- Conclude evidentiary hearings for the Third Regulatory Period for Meralco beginning in July 2011
- Continue to expand the toll road portfolio at MPTC by targeting acquisitions and new builds in heavily trafficked areas
- Continue to grow the hospital network through the acquisition of hospitals across the country
- Participate in further development of the country's infrastructure, such as airports or Manila's Metro Rail Transit ("MRT") 3 light rail system

## Review of 2010 Goals

| Goal | Achievement |
|---|---|
| Focus on organic growth through product innovations and distribution penetration | **Achieved and ongoing**<br>Sales volume grew across the divisions and several new products were introduced in 2010, while distribution penetration increased, particularly in the rural areas. |
| Expand oil palm and sugar plantation area through new planting | **Achieved and ongoing**<br>Expanded the planted area with 15,041 hectares and 2,630 hectares new planting for oil palm and sugar cane, respectively. |
| Enhance supply chain through increasing partnerships with farmers | **Achieved and ongoing** |
| To strengthen balance sheet and reduce debt | **Achieved and ongoing**<br>As at 31 December 2010, Indofood recorded gross debt of Rupiah 14.3 trillion (US$1.6 billion), down from Rupiah 17.3 trillion (US$1.8 billion) as at 31 December 2009. Net debt was Rupiah 3.9 trillion (US$432.3 million) as at 31 December 2010, down from Rupiah 12.8 trillion (US$1.4 billion) a year earlier. |
| Continue harmonization of IT system | **Achieved**<br>The majority of IT systems investment has been completed. This is delivering increased efficiency. |



## Goals for 2011

- Expand business/product categories
- Increase market share in some categories
- Improve product and service quality
- Enhance R&D capabilities
- Optimize operational efficiencies

PHILEX
MINING CORPORATION

## Review of 2010 Goals

| Goal | Achievement |
|---|---|
| Improve the output from the Padcal Mine to approximately 9 million tonnes of ore | **Achieved**<br>Total ore milled in 2010 increased 14% to 9.36 million tonnes, the highest in over a decade, despite ore grades being slightly lower in 2010 at an average of 0.552 grams gold per tonne (2009: 0.567 grams per tonne) and copper average grade at 0.210% (2009: 0.228%). |
| Complete the prefeasibility study of the Silangan Project | The Silangan Project is moving forward to the development phase. |
| Start commercial operation of the Zamboanga coal mine of Brixton Energy & Mining Corporation | **Achieved**<br>Commercial operations commenced in the fourth quarter of 2010. |
| Further evaluate the opportunities of the energy group and the petroleum/ hydrocarbon assets | **Ongoing**<br>Exploration work for oil and gas deposits continues. The GSEC 101 over the Sampaguita natural gas discovery, northwest of Palawan under Forum Energy Plc has been converted into Service Contract (SC) 72. |

## Goals for 2011

- Extend Padcal's mine life beyond 2017
- Move forward on Silangan development of the mine
- Continue exploring opportunities to acquire new mining operations
- Determine the feasibility and cost-effectiveness of reopening the Bulawan Gold Mine
- Intensify exploration of areas with permits in the environs of the Padcal Mine, Bulawan Mine, Silangan Project and Sibutad Project for further mining opportunities
- Improve public perception of the benefits of mining to the Philippines

# Review of Operations

First Pacific Group companies continued to grow and strengthened their market positions during the year. Consolidated contribution from operations increased 41.4% to US$474.0 million. PLDT, MPIC, Indofood and Philex declared dividends which enabled First Pacific's Board of Directors to recommend an increase in its final dividend of 50% in line with its improvement in recurring profit and its commitment to distribute at least 25% of recurring profit to shareholders as dividends.

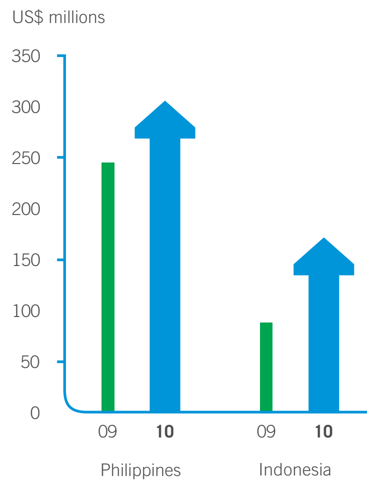
Below is an analysis of results by individual company.

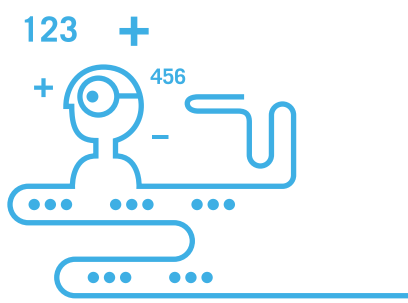
## Contribution Summary

| | Turnover | | Contribution to Group profit(i) | |
|---|---|---|---|---|
| For the year ended 31 December<br>US$ millions | **2010** | 2009 | **2010** | 2009 |
| PLDT(ii) | – | – | **224.1** | 205.3 |
| MPIC | **412.2** | 336.9 | **46.9** | 33.0 |
| Indofood | **4,228.0** | 3,588.7 | **172.1** | 89.2 |
| Philex(ii) | – | – | **30.9** | 7.7 |
| **From Operations** | **4,640.2** | 3,925.6 | **474.0** | 335.2 |
| Head Office items: | | | | |
| - Corporate overhead | | | **(20.9)** | (17.6) |
| - Net interest expense | | | **(45.0)** | (24.0) |
| - Other expenses | | | **(6.0)** | (7.0) |
| **Recurring Profit** | | | **402.1** | 286.6 |
| Foreign exchange and derivative gains(iii) | | | **2.8** | 23.7 |
| Gain on changes in fair value of plantations | | | **7.6** | 10.0 |
| Non-recurring items(iv) | | | **(8.8)** | 81.3 |
| **Profit Attributable to Owners of the Parent** | | | **403.7** | 401.6 |

(i) After taxation and non-controlling interests, where appropriate
(ii) Associated companies
(iii) Foreign exchange and derivative gains represent the gains on foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and payables and the changes in the fair values of derivatives.
(iv) 2010's non-recurring losses of US$8.8 million mainly represent the Group's share of Meralco's non-recurring losses, and provision and write-off of certain assets, partly offset by the Group's gain on disposal of its interest in an associated company. 2009's non-recurring gains of US$81.3 million mainly represent gains on dilution of the Group's interest in MPIC.

## Contribution by Country




Turnover ↑ 18%

- to US$4,640.2 million from US$3,925.6 million
- principally reflecting an approximately 14% appreciation of the average rupiah exchange rate against the U.S. dollar and a 22% increase in MPIC's revenues

| | |
|---|---|
| Recurring profit ↑ 40% | • to US$402.1 million from US$286.6 million<br>• comprising a significantly improved performance and contribution from all operating companies<br>• partially offset by higher net interest expenses and corporate overhead at the Head Office level |
| Non-recurring losses | • US$8.8 million<br>• mainly representing the Group's share of Manila Electric Company ("Meralco")'s non-recurring losses, and provision and write-off of certain assets, partly offset by the Group's gain on disposal of its interest in an associated company, compared with gains of US$81.3 million for 2009 representing gains on dilution of the Group's interest in MPIC |
| Reported profit ↑ 1% | • to US$403.7 million from US$401.6 million<br>• reflecting the increase in recurring profit, partly offset by the reduction in foreign exchange and derivative gains, and non-recurring losses recorded in 2010 as compared with non-recurring gains in 2009 |

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 are summarized below.

| Exchange rates against the U.S. dollar<br>At 31 December | 2010 | 2009 | One year change |
|---|---|---|---|
| **Closing** | | | |
| Peso | **43.84** | 46.20 | +5.4% |
| Rupiah | **8,991** | 9,400 | +4.5% |

| Exchange rates against the U.S. dollar<br>For the year ended 31 December | 2010 | 2009 | One year change |
|---|---|---|---|
| **Average** | | | |
| Peso | **45.04** | 47.81 | +6.2% |
| Rupiah | **9,083** | 10,349 | +13.9% |

During 2010, the Group recorded net foreign exchange and derivative gains of US$2.8 million (2009: US$23.7 million), which can be further analyzed as follows:

| US$ millions | 2010 | 2009 |
|---|---|---|
| Head Office | **(3.0)** | (3.0) |
| PLDT | **2.1** | 2.0 |
| MPIC | **0.1** | 1.8 |
| Indofood | **4.3** | 23.9 |
| Philex | **(0.7)** | (1.0) |
| **Total** | **2.8** | 23.7 |

## Additional Investments

Additional investments made in 2010:

### Infrastructure/Telecommunications

- Beacon Electric Asset Holdings, Inc. ("Beacon Electric"), a special purpose vehicle for holding PLDT/PCEV and MPIC's investment in Meralco, exercised a call option to acquire an additional 6.6% interest in Meralco for Pesos 22.4 billion (US$497.3 million) in March 2010
- MPIC invested Pesos 276 million (US$6.0 million) for a 51% stake in Riverside Medical Center in May 2010
- In October 2010, MPIC's wholly-owned subsidiary East Manila Hospital Managers Corporation secured a 20-year contract to manage and operate Our Lady of Lourdes Hospital

### Natural Resources

- First Pacific acquired an additional 5.9% interest in Philex in January 2010 (US$129.3 million)
- Philex acquired 1.14% interest in FEC Resources, Inc. in January 2010 (US$2.5 million)
- Philex's wholly-owned subsidiary Philex Petroleum Corporation acquired an additional 2.4% interest in Forum Energy Plc. in February 2010 (US$0.8 million)
- Philex acquired the remaining 19% equity interest in Philex Gold Inc. through a tender offer in April 2010 (US$5.8 million)

First Pacific Group has built a portfolio of assets which have strong growth and cash flow prospects. The Company's focus remains on raising the performance of these businesses, delivering higher profits, increasing cash flows and driving value appreciation.

## Capital Management

### Dividend

The First Pacific Board has recommended a final dividend of HK12.00 cents (U.S. 1.54 cents) per share, up 50% from HK8.00 cents (U.S. 1.03 cents) per share in 2009. Together with the interim dividend of HK6.00 cents (U.S. 0.77 cent) (2009: HK4.00 cents (U.S. 0.51 cent)) per share, and a special dividend of HK1.88 cents (U.S. 0.24 cent) (2009: Nil), the total dividend amounts to HK19.88 cents (U.S. 2.55 cents), up 66% from HK12.00 cents (U.S. 1.54 cents) per share in 2009. 2010 dividend payments represent a payout ratio of 25% of recurring profit (2009: 20%), meeting the Company's earlier commitment to pay out this proportion of recurring profit.

### Share Repurchase Program

In June 2010, the Board approved a two-year program to buy back up to US$130 million of First Pacific shares by way of "on-market repurchases". Since the program was announced, US$22.4 million has been invested in the repurchases for a total of 26.3 million shares.

## Debt Profile

At 31 December 2010, gross debt at the Head Office stood at US$1.1 billion. In July 2010, FPMH Finance Limited, a wholly owned subsidiary of First Pacific, issued US$300 million of seven-year senior guaranteed secured bonds as part of its refinancing and overall debt management program. In September 2010, FPT Finance Limited, also a wholly owned subsidiary of First Pacific, issued US$400 million of 10-year senior guaranteed secured bonds as the second leg of the same program. The two fixed rate bonds enhance First Pacific's interest rate risk management by reducing the Head Office's floating-rate borrowings to approximately 4% of the total from approximately 69% and doubled the average maturity of the Head Office's borrowings.

Net interest expense increased 88% during the year to US$45.0 million as a result of a higher average debt level and higher interest rates.

## Interest Cover

For the year, Head Office's recurring operating cash inflow was approximately US$233 million and cash interest payments were approximately US$20 million. Cash interest cover stood at approximately 12.6 times.

## Foreign Currency Hedging

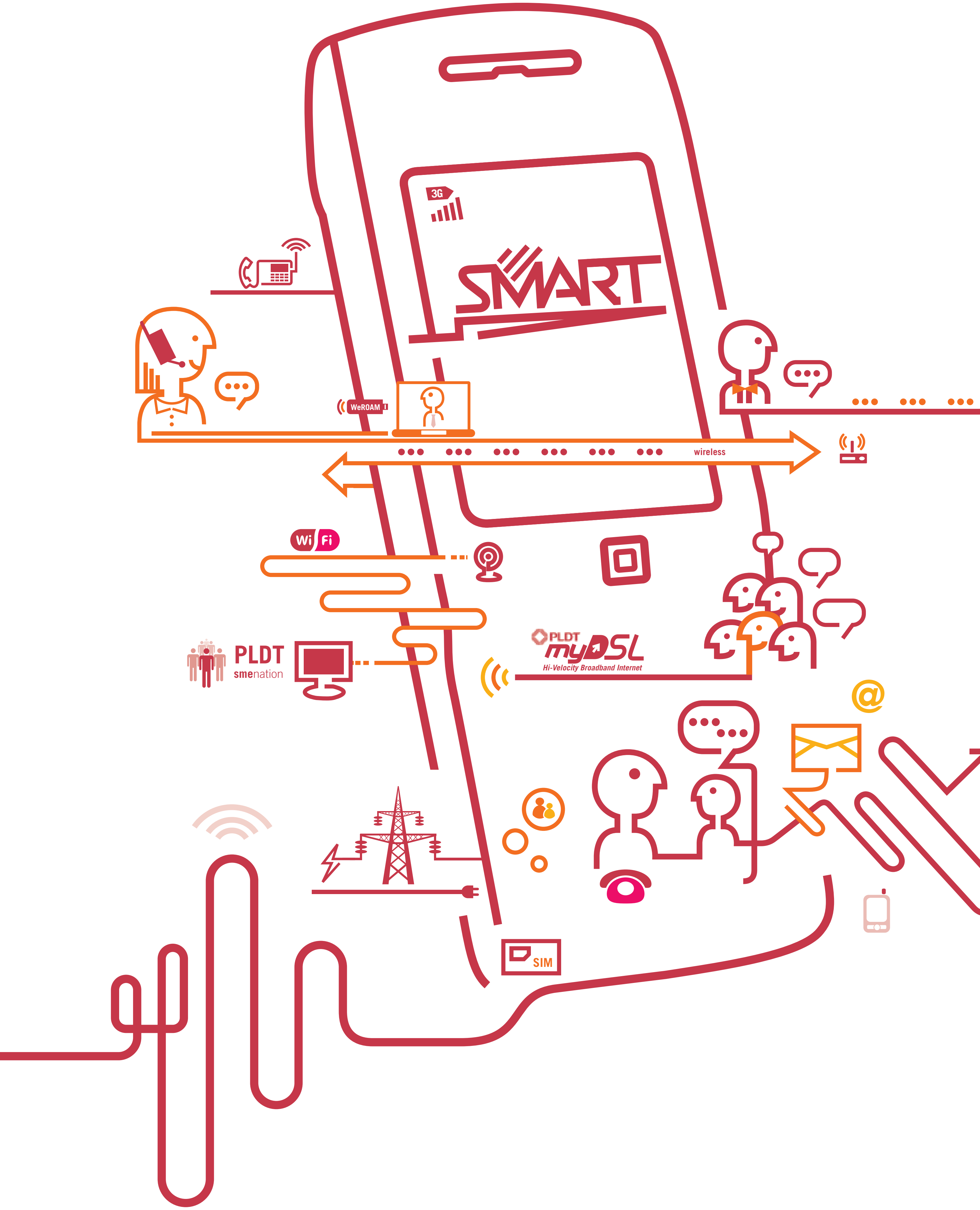
A two-year forward contract was entered in December 2009 to hedge a portion of the Peso dividend income from PLDT. Rupiah dividends from Indofood are not hedged due to the high cost of hedging in that currency.

## Interest Rate Hedging

Together with the issuance of fixed rate bonds, only 4% of the Head Office's borrowings were on a floating rate basis as at 31 December 2010. To manage the interest rate risk, a 3.75-year interest rate swap contract to convert the interest rate of a US$200 million loan from floating to fixed was entered in April 2009. Another three-year interest rate swap contract was entered in November 2009 to hedge another US$45 million floating interest rate exposure.

## 2011 Outlook

Each of First Pacific's operating companies expressed cautious optimism with respect to their outlook for 2011. PLDT is investing in network improvements and expansions to capture the next wave of growth in telecommunications, wireless and fixed-line broadband to further secure its market domination in this new and growing sector of the industry. MPIC, the infrastructure arm of First Pacific, continues to explore opportunities to invest in infrastructure, such as airports and light rail while Meralco gears up for a move into electricity generation and explores the possibility of expanding the reach of its distribution network. Indofood's strong operating margins are continuing to drive improved performance. Philex continues to focus on maximizing efficiency to maintain high production volumes while developing the Silangan Project and exploring other areas of expansion, both organically and via acquisition.


3G
SMART
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Internet
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# CHANGING LIVES

:D

mobile

PLDT

Contribution

**+9.2%**

US$224.1 million

# Review of Operations

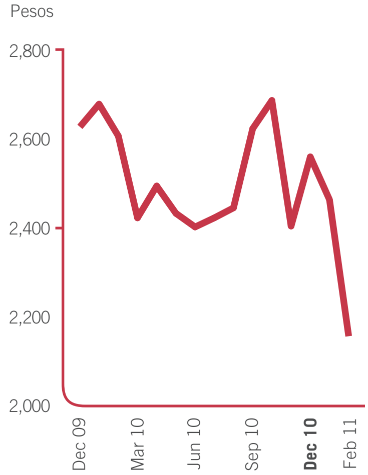
An analysis of PLDT's contribution to the First Pacific Group, adjusted for Hong Kong GAAP and translated into U.S. dollars, follows.

| | Turnover | | | Profit | | |
|---|---|---|---|---|---|---|
| US$ millions | **2010** | 2009 | % change | **2010** | 2009 | % change |
| Wireless | **2,083.2** | 2,003.8 | +4.0 | **1,063.0** | 989.9 | +7.4 |
| Fixed Line | **1,079.2** | 1,068.8 | +1.0 | **252.1** | 322.5 | -21.8 |
| ICT* | **237.1** | 228.0 | +4.0 | **25.6** | 14.6 | +75.3 |
| Inter-segment elimination | **(241.4)** | (253.9) | -4.9 | **–** | – | – |
| Total | **3,158.1** | 3,046.7 | +3.7 | | | |
| **Segment Result** | | | | **1,340.7** | 1,327.0 | +1.0 |
| Net borrowing costs | | | | **(120.9)** | (101.1) | +19.6 |
| Share of profits less losses of associates and joint ventures | | | | **44.9** | 0.1 | +44,800.0 |
| **Profit Before Taxation** | | | | **1,264.7** | 1,226.0 | +3.2 |
| Taxation | | | | **(406.8)** | (432.2) | -5.9 |
| **Profit for the Year** | | | | **857.9** | 793.8 | +8.1 |
| Non-controlling interests | | | | **(0.9)** | (6.6) | -86.4 |
| **Profit Attributable to Equity Holders** | | | | **857.0** | 787.2 | +8.9 |
| Preference dividends | | | | **(10.2)** | (9.5) | +7.4 |
| **Profit Attributable to Common Shareholders** | | | | **846.8** | 777.7 | +8.9 |
| Average shareholding (%) | | | | **26.5** | 26.4 | – |
| **Contribution to Group Profit** | | | | **224.1** | 205.3 | +9.2 |

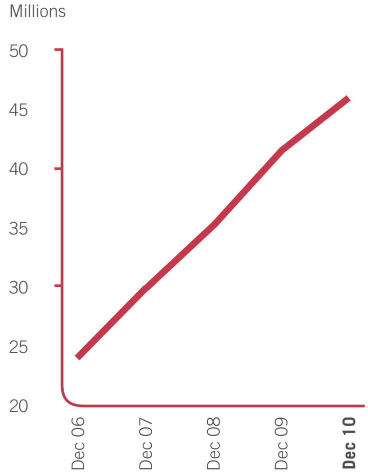
* Information and Communications Technology

PLDT contributed a profit of US$224.1 million to the Group (2009: US$205.3 million). This represents approximately 47% (2009: 61%) of First Pacific's aggregate contribution derived from the operations of subsidiary and associated companies for 2010. The increase in profit contribution (after the impact of an approximately 6% appreciation of the average peso exchange rate against the U.S. dollar) was a reflection of PLDT's equity share in net earnings of associates, principally from its share of earnings of Meralco, and lower tax charge, partly offset by a decrease in service revenues.

## Share Price Performance




## Cellular Subscriber Numbers



Consolidated core net income ↑ 2%

- to Pesos 42.0 billion (US$932.5 million) from Pesos 41.1 billion (US$859.7 million)
- due to higher earnings contributions from Meralco, ePLDT/SPi and a lower tax charge

Reported net income ↑ 1%

- to Pesos 40.2 billion (US$892.5 million) from Pesos 39.8 billion (US$832.5 million)

Consolidated service revenues ↓ 2%

- to Pesos 142.2 billion (US$3.2 billion) from Pesos 145.6 billion (US$3.0 billion)
- due to 21% decrease in national long distance (NLD) revenues
- a 16% reduction in international long distance (ILD) revenues
- a 12% decline in cellular text revenues
- offset by a 15% growth in combined fixed and wireless broadband and internet revenues
- a 16% rise in revenues from fixed data and other network services to third parties
- a 9% increase in cellular voice revenues (including a 19% increase in domestic voice revenues offset in part by a 5% decline in international voice revenues)

EBITDA ↓ 3%

- to Pesos 83.7 billion (US$1.9 billion) from Pesos 86.2 billion (US$1.8 billion)
- due to lower service revenues and higher cash operating expenses, particularly a one-time cost of Pesos 2.1 billion (US$46.6 million) resulting from a manpower reduction program undertaken in 4Q10 affecting nearly 1,100 personnel

EBITDA margin

- stable at 59% of service revenues with 63% for wireless, 47% for fixed line and 16% for Information and Communications Technology (ICT)

Consolidated free cash flow ↓ 2%

- to Pesos 43.7 billion (US$970.2 million) from Pesos 44.0 billion (US$928.7 million)
- resulting from an increase in capex to Pesos 28.8 billion (US$639.4 million) from Pesos 28.1 billion (US$587.7 million)
- an increase in net interest expenses to Pesos 4.4 billion (US$97.7 million) from Pesos 3.9 billion (US$81.6 million)
- offset by a higher cash from operations of Pesos 77.3 billion (US$1.7 billion) compared with Pesos 74.4 billion (US$1.6 billion)

Consolidated debt (gross)

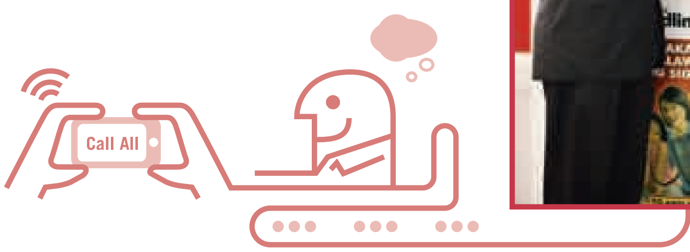
- at US$2.1 billion from US$2.2 billion as at 31 December 2009
- U.S. dollar-denominated debts further declined to 45% from 48% at the end of 2009; only 25% of total debt remains unhedged taking into account Peso borrowings, hedges and U.S. dollar cash holdings
- 76% of total debt are fixed-rate loans while 24% are floating-rate loans
- more than 50% of total debt matures in and after 2014

Consolidated net debt

- stable at US$1.3 billion

Net debt/EBITDA

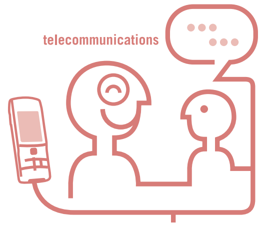
- stable at 0.7 times



## Capital Management

### Dividend

PLDT maintained its strong performance despite continuing signs of increasing maturity in its core market. It declared a final dividend of Pesos 78 (US$1.73) per share, fulfilling its commitment to pay out a minimum ratio of 70% of core earnings, and, consistent with its year-end "look back approach", declared a special dividend of Pesos 66 (US$1.47) per share. In addition to the interim dividend of Pesos 78 (US$1.73) per share paid in September 2010, total dividends for the year will amount to Pesos 222 (US$4.93) per share, representing a payout of 100% of 2010 core earnings, equaling the payout ratio of the previous three years. Total dividend payments for 2010 will amount to Pesos 41.4 billion (US$919.2 million).




### Share Buyback

In 2008, PLDT's board approved a share buyback program of up to 5 million shares. As of 31 December 2010, PLDT had bought back 2.7 million shares into treasury at an average cost of Pesos 2,388 (US$53.02) per share.

Under the approved share buyback program, PLDT may still acquire up to 2.3 million shares from the market on an opportunistic basis.

## Wireless

Smart's cellular subscriber base grew 10% to 45.6 million (2009: 41.3 million) representing approximately 52% of the total cellular market in the Philippines based on subscribers and approximately 58% in terms of revenue.

At the end of December 2010, the cellular SIM penetration rate in the Philippines was approximately 94%. About 99% of Smart's subscribers are prepaid. Net blended average revenue per user (ARPU) declined 16% year-on-year to Pesos 158 (US$3.51).

Combined broadband subscribers – Digital Subscriber Line (DSL) fixed and wireless – grew 25% year-on-year to 2.02 million, which accounted for approximately 58% of the broadband market in the Philippines. Total DSL, wireless broadband and internet service revenues were up 16% to Pesos 16.9 billion (US$375.2 million) with DSL ARPU at approximately Pesos 1,137 (US$25.24) and net blended wireless ARPU at Pesos 413 (US$9.17).

Cellular voice revenues rose 9% in 2010 to Pesos 42.3 billion (US$939.2 million) compared with Pesos 38.9 billion (US$813.6 million) in the previous year. Voice revenues contributed 49% of total cellular service revenues in 2010 compared with 44% in 2009. Response to PLDT's low-cost/unlimited voice promotional offerings (SmartTalk, SmartTalk Plus, Red Mobile Unlimited) remains strong with 82% year-on-year growth in domestic call minutes with yield lower at Pesos 1.19 (U.S. 2.64 cents) per minute. The increase in voice traffic generated by the low-cost/unlimited voice promotions is to be carried by the Red Mobile/second network PLDT has put into place.

SMS/data services in 2010 accounted for 48% of cellular service revenues compared with 53% in 2009. SMS volumes rose 19% but yield was at Pesos 0.13 (U.S. 0.29 cents) per text due to the popularity of bucket plans.

Wireless service revenues ↓ 2%

- to Pesos 93.8 billion (US$2.1 billion) from Pesos 95.8 billion (US$2.0 billion)
- due largely to a 12% reduction in cellular data/text revenues
- a 17% decline in satellite and other revenues due to the sale of transponders
- offset in part by a 17% increase in wireless broadband revenues
- 9% growth in cellular voice revenues, including a 19% rise in domestic voice revenues

Wireless EBITDA ↓ 1%

- to Pesos 58.9 billion (US$1.3 billion) from Pesos 59.4 billion (US$1.2 billion)
- reflecting a 2% reduction in service revenues
- offset in part by a 3% decline in cash opex

| | |
|---|---|
| EBITDA margin | • to 63% from 62% |
| Net blended ARPU ↓ 16% | • to Pesos 158 (US$3.51) from Pesos 188 (US$3.93)<br>• due to the continuing preference for bucket-priced and unlimited offers which accounted for 56% of cellular data revenues |

Smart continues to invest in its cellular and multi-platform broadband networks while upgrading its existing transmission, core and access facilities. Smart's 3G and fixed wireless broadband networks now cover 52% and 69% of the country's population, respectively.

## Fixed Line

Revenues generated from the fixed line business amounted to Pesos 48.6 billion (US$1.1 billion) in 2010 from Pesos 51.1 billion (US$1.1 billion) in 2009.

| | |
|---|---|
| Fixed line service revenue ↓ 5% | • to Pesos 48.6 billion (US$1.1 billion) from Pesos 51.1 billion (US$1.1 billion)<br>• accounted for 28% of PLDT's consolidated service revenues<br>• the strong Peso impacted the business unfavorably with approximately 25% of fixed line service revenues being dollar-denominated or dollar-linked. Had the Peso remained stable, service revenues would have been higher by Pesos 700 million (US$15.5 million)<br>• local exchange revenues declined by 2% despite the increase in the average number of postpaid billed lines as ARPU declined due to bundled voice and data services<br>• NLD revenues were lower by 21% compared with a year earlier on account of a 29% decrease in call volumes<br>• ILD revenues decreased by 16% due to the decline in the average settlement rate for inbound calls and the unfavorable impact of the Peso appreciation partially offset by stable corporate data and DSL revenues<br>• revenues from data service accounted for 45% (2009: 42%) of total fixed line service revenues reflecting a 16% increase in international data services revenues offsetting a 22% decline in domestic data service revenues |
| Fixed line EBITDA ↓ 10% | • to Pesos 22.7 billion (US$504.0 million) from Pesos 25.2 billion (US$527.1 million)<br>• reflecting lower service revenues and higher cash opex |
| EBITDA margin | • to 47% from 49% |

The ongoing network upgrading to an all-IP next generation network (NGN) will significantly improve the network's efficiency and capability, particularly data-related services.

## Information and Communications Technology (ICT)

The reorganization of the ICT businesses aims to create better focus and maximize scale. SPi CRM, Inc., which handles customer interaction services (more commonly known as "call center") and SPi Technologies, Inc., the knowledge processing arm (also known as business process outsourcing or "BPO") have combined their operations and are managed under SPi Global Holdings, Inc.

Service revenues ↓ 2%

- to Pesos 10.7 billion (US$237.1 million) from Pesos 10.9 billion (US$228.0 million)
- due to a 15% decline in call center/CRM revenues largely owing to lower domestic sales and international revenues and the impact of the Peso appreciation
- offset in part by a 25% increase in data center revenues on account of increases in co-location and disaster recovery contracts
- a 1% rise in BPO revenues as a result of an 8% increase in dollar-based revenues offset by the Peso appreciation
- with 70% of their revenues being dollar-denominated, the ICT business' results were particularly hard hit by the appreciation of the Peso. Had the Peso remained stable, service revenues for the year would have increased by 2% year-on-year
- accounted for 7% of PLDT's consolidated service revenues

EBITDA ↑ 30%

- to Pesos 1.7 billion (US$37.7 million) from Pesos 1.3 billion (US$27.2 million)
- 5% decrease in cash operating expenses, largely due to a reduction in headcount
- slightly offset by a 2% decrease in service revenues

EBITDA margin

- to 16% from 12%

Under the new business structure of ICT, SPi is focusing on creating end-to-end BPO solutions through consolidation, with the end of accelerating growth in all three of its verticals - call center, healthcare and content solutions. ePLDT will continue to expand its data center businesses while exploring cloud computing initiatives and other ICT programs.

## Meralco

PCEV, a 99.5% owned subsidiary of Smart, has a direct stake of approximately 6.1% in Meralco, the largest electricity distributor in the Philippines. PCEV also owns 50% of Beacon Electric, a special purpose company jointly owned with MPIC. Beacon Electric presently owns approximately 34.8% of Meralco. Meralco's franchise allows it to distribute electricity in most of Luzon until 2028. The franchise area produces over 55% of the country's gross domestic product and is home to half of the Philippines' population. Meralco accounts for approximately 60% of total electricity sales in the Philippines.

On 25 May, 2010, Manuel V. Pangilinan, Chairman of PLDT and Managing Director and Chief Executive Officer of First Pacific, was appointed by the Meralco Board of Directors to the position of President and Chief Executive Officer of Meralco as well as Chairman of the Executive Committee. Napoleon L. Nazareno, Chief Executive Officer of PLDT and Non-executive Director of First Pacific, was re-elected to the Meralco Board of Directors and Executive Committee on the same date.

Details of Meralco's performance in 2010 can be found in the MPIC section of this report.

## 2011 Outlook

The cellular business faces challenges given the high market penetration, the market's increasing preference for bucket plans and unlimited offers and multiple SIM ownership, competition from social networking and broadband, as well as continuing aggressive competition among industry participants. Demand for data/broadband is anticipated to explode, with a consequent impact on traditional revenues sources such as SMS and ILD. Competition is expected to shift to data/broadband even as revenues from traditional voice and SMS will remain sizable in the medium-term.

Broadband subscribers require speed, reliability, capacity and greater customer service and have low tolerance for poor quality of service. This creates the opportunity for PLDT to leverage its superior integrated fixed and wireless network to create a significant competitive advantage.

In confirming its undisputed market leadership, PLDT will invest approximately Pesos 67 billion (US$1.5 billion) in capex for 2011-2012, to be funded by debt.

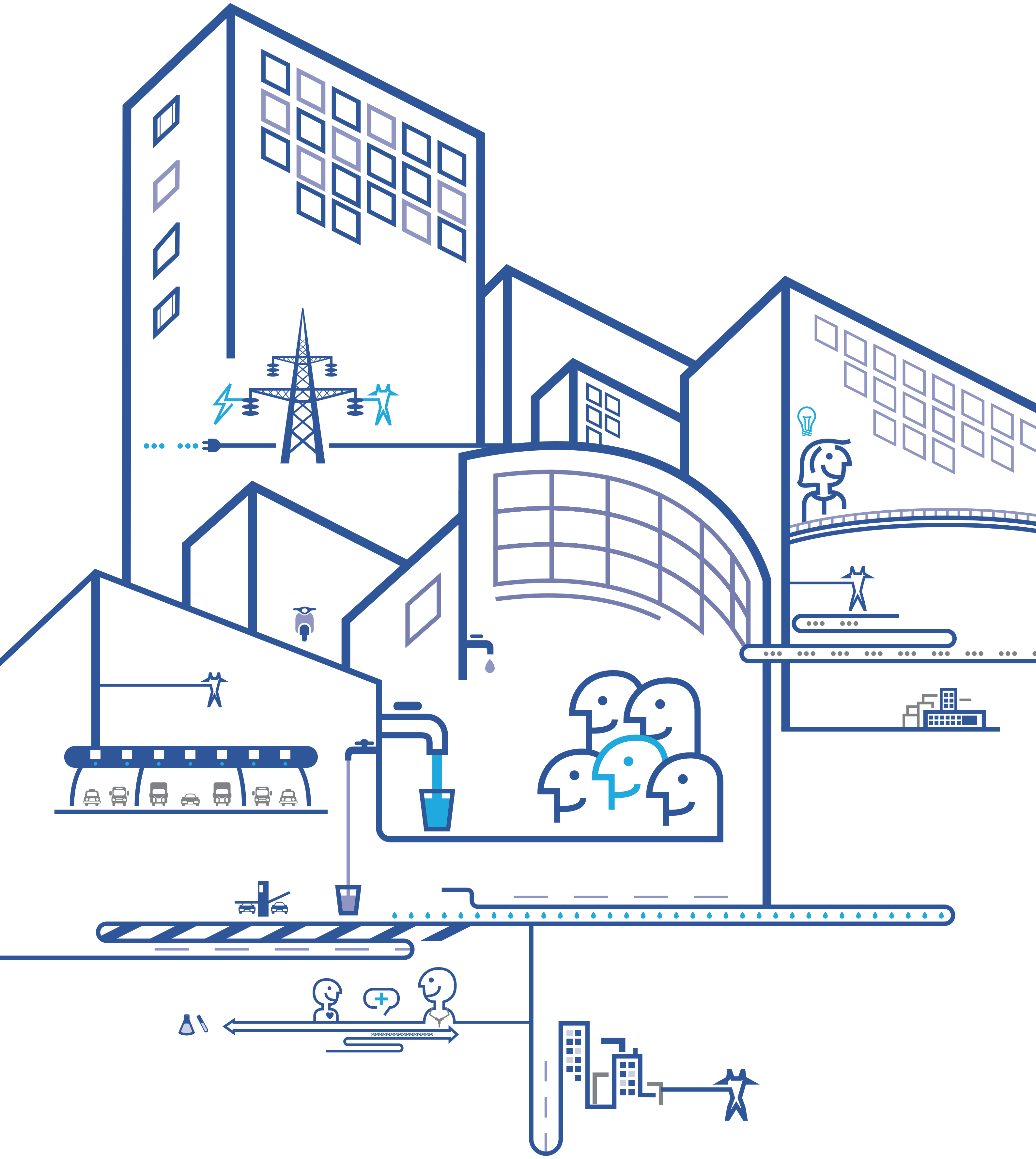
Consequently, PLDT expects core net income to be in the region of Pesos 40.5 billion (US$899.2 million) in each of 2011 and 2012 due to increasingly intense competition on price and for market share as well as incremental depreciation and interest expense before returning to growth starting in 2013 and onwards. The current dividend policy of a commitment to pay out 70% of core earnings with a "look back approach" policy is not expected to be significantly impacted by the higher capex plan.

## Reconciliation of Reported Results Between PLDT and First Pacific

PLDT's operations are principally denominated in peso, which averaged Pesos 45.04 (2009: 47.81) 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. dollars. Philippine GAAP and Hong Kong GAAP are largely based on IFRSs, however, certain adjustments 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 | **2010** | 2009 |
|---|---|---|
| Net income under Philippine GAAP | **40,217** | 39,781 |
| Preference dividends[(i)] | **(458)** | (456) |
| Net income attributable to common shareholders | **39,759** | 39,325 |
| Differing accounting and presentational treatments[(ii)] | | |
| - Reclassification of non-recurring items | **2,169** | 1,708 |
| - Others | **(3,429)** | (3,502) |
| Adjusted net income under Hong Kong GAAP | **38,499** | 37,531 |
| Foreign exchange and derivative gains[(iii)] | **(358)** | (351) |
| PLDT's net income as reported by First Pacific | **38,141** | 37,180 |
| US$ millions | | |
| Net income at prevailing average rates for 2010: Pesos 45.04 and 2009: Pesos 47.81 | **846.8** | 777.7 |
| Contribution to First Pacific Group profit, at an average shareholding of 2010: 26.5% and 2009: 26.4% | **224.1** | 205.3 |

(i) First Pacific presents net income after deduction of preference dividends.
(ii) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP, and other presentational differences. 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 2010 of Pesos 2.2 billion (2009: Pesos 1.7 billion) represents asset impairment provisions of Pesos 1.5 billion (2009: Pesos 1.7 billion) and share of Meralco's non-recurring losses of Pesos 0.7 billion (2009: Nil).
– Others: The adjustment principally relates to the accrual of withholding tax on PLDT's net income in accordance with the requirements of HKAS 12 "Income Taxes".
(iii) To illustrate the underlying operational results and profit contributions, foreign exchange and derivative gains (net of related tax) are excluded and presented separately.



# MOVING FORWARD

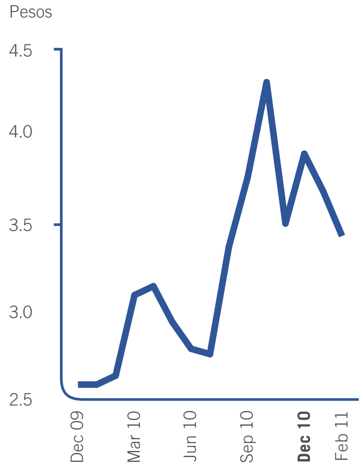
Contribution
**+42.1%**
US$46.9 million

# Review of Operations

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

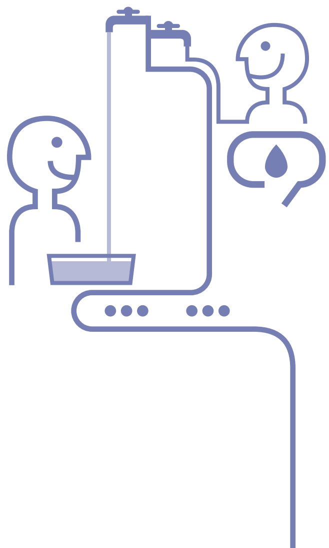
| | Turnover | | | Profit | | |
|---|---|---|---|---|---|---|
| US$ millions | **2010** | 2009 | % change | **2010** | 2009 | % change |
| Water distribution | **267.5** | 222.1 | +20.4 | **134.3** | 91.8 | +46.3 |
| Toll roads | **130.1** | 114.8 | +13.3 | **62.3** | 49.7 | +25.4 |
| Healthcare | **14.6** | – | – | **1.4** | – | – |
| Corporate overhead | **–** | – | – | **(2.8)** | (6.1) | -54.1 |
| Total | **412.2** | 336.9 | +22.4 | | | |
| **Segment Result** | | | | **195.2** | 135.4 | +44.2 |
| Net borrowing costs | | | | **(86.9)** | (73.5) | +18.2 |
| Share of profits less losses of associates and joint ventures | | | | **29.8** | 10.5 | +183.8 |
| **Profit Before Taxation** | | | | **138.1** | 72.4 | +90.7 |
| Taxation | | | | **1.8** | 4.8 | -62.5 |
| **Profit for the Year** | | | | **139.9** | 77.2 | +81.2 |
| Non-controlling interests | | | | **(93.0)** | (44.2) | +110.4 |
| **Contribution to Group Profit** | | | | **46.9** | 33.0 | +42.1 |

**Share Price Performance**




MPIC's quality infrastructure portfolio comprises the following assets offering water distribution, toll roads, electricity distribution and healthcare services:

- 56.8% in Maynilad Water Services, Inc. ("Maynilad")
- 99.8% in Metro Pacific Tollways Corporation ("MPTC") which owns 67.1% of Manila North Tollways Corporation ("MNTC")
- 50.0% in Beacon Electric which owns 34.8% of Manila Electric Company ("Meralco")
- 34.9% in Medical Doctors, Inc. ("MDI"), which owns 100% of Colinas Verdes Hospital Managers Corporation ("CVHMC"), the operator of Cardinal Santos Medical Center ("CSMC")
- 34.9% in Davao Doctors Hospital, Inc. ("DDH")
- 51.0% in Riverside Medical Center, Inc. ("RMCI")
- 100% in East Manila Hospital Managers Corporation ("EMHMC"), operator of Our Lady of Lourdes Hospital



MPIC's contribution to the Group increased 42.1% to US$46.9 million (2009: US$33.0 million) reflecting higher contribution from all its businesses with the exception of healthcare.

Consolidated core net income ↑ 88%

- to Pesos 3.9 billion (US$85.6 million) from Pesos 2.0 billion (US$42.8 million)
- as a result of the inclusion of full-year contribution from Meralco and continuing improvements at most operating companies
- Maynilad, Meralco, MPTC and Healthcare accounted for 44%, 27%, 26% and 3%, respectively, of MPIC consolidated profit contribution from operations

| | |
|---|---|
| Revenues ↑ 15% | • to Pesos 18.6 billion (US$412.2 million) from Pesos 16.1 billion (US$336.9 million)<br>• reflecting improved performance from Maynilad and MPTC |
| Consolidated reported net income ↑ 25% | • to Pesos 2.9 billion (US$63.7 million) from Pesos 2.3 billion (US$48.1 million)<br>• reflecting slower growth than core net income due to significant non-recurring income recorded in 2009 as part of the rate rebasing exercise for Maynilad in May 2009 and non-recurring losses of Pesos 985 million (US$21.9 million) recorded in 2010 from provisions at Meralco and MPTC |
| Consolidated debt ↓ 24% | • to Pesos 32.5 billion (US$741.9 million) from Pesos 42.8 billion (US$926.1 million)<br>• reflecting loan repayments in the first quarter of 2010 |

## Dividend

The MPIC Board of Directors declared a final cash dividend of Peso 0.015 (U.S. 0.033 cent) per share, bringing full-year dividend to Peso 0.025 (U.S. 0.056 cent) per share.

## Maynilad

Maynilad operates a franchise that runs until 2037 for the sole water distribution system for the western half of Metro Manila, with a population of 9.3 million as at 31 December 2010. During MPIC's operation of Maynilad, pipeline network expansion and leak repair have reduced the unserved population within the franchise area to 21% or 1.95 million and reduced the underserved population to 23% or 2.15 million.

| | |
|---|---|
| Total billed water volume ↑ 7% | • to 373.8 million cubic meters from 350.1 million cubic meters<br>• reflecting a rise in total billed customers<br>• partially offset by a 7% decline in average daily consumption to 1.13 cubic meters per day as supply decreased due to below-average rainfall and the customer mix shifted to a higher proportion of residential and semi-business customers |
| Total billed customers ↑ 11% | • to 903,682 from 814,645<br>• 77% of the customers are residential and semi-business and the remaining 23% are commercial and industrial |
| Average non-revenue water ↓ 10% | • to 53.5% from 59.7%<br>• 51.0% in December 2010<br>• reflecting successes in leakage identification and repair, and redirecting available water to areas with fewer leaks |
| Revenues ↑ 13% | • to Pesos 12.0 billion (US$267.5 million) from Pesos 10.6 billion (US$222.1 million)<br>• reflecting higher billed water volume, additional water service connections, a higher average tariff and increased sewer service income |
| Core net income ↑ 45% | • to Pesos 4.8 billion (US$106.6 million) from Pesos 3.3 billion (US$69.6 million)<br>• higher than the growth in revenues as amortization of concession assets was lowered by the extension of the concession from 2022 to 2037 |
| Core EBITDA ↑ 13% | • to Pesos 7.9 billion (US$175.4 million) from Pesos 7.0 billion (US$146.4 million) |
| Reported net income ↑ 69% | • to Pesos 4.8 billion (US$106.6 million) from Pesos 2.8 billion (US$58.6 million) |

Maynilad's major source of water is the Angat Dam which dipped to the critically low level of 157.57 meters in July 2010 compared with 190.20 meters a year earlier. This compelled Maynilad to off-take 7% less water in 2010 than a year earlier. To minimize the impact of the water shortage, Maynilad implemented the following initiatives:

- opening the Putatan Water Treatment Plant ("Putatan") in July 2010 with an initial capacity of 25 MLD which has been increased to 60 MLD by year-end
- aggressive leak repair, eliminating 40,392 leaks in 2010 compared with 18,149 a year earlier
- increased efficiency of pressure and supply management coupled with pipe rehabilitation

Putatan is the first water treatment facility to tap into Laguna Lake as an alternative water source to the Angat Dam and is the largest membrane-based water treatment plant in the Philippines. As the first water treatment plant in the country to use large-scale microfiltration and reverse osmosis, the facility is a vital part of Maynilad's plan to develop alternative sources of water to ensure long-term water security for its customers.

Maynilad's revised capital expenditure plan enabled it to secure a six-year income tax holiday commencing in January 2010. It plans to reinvest additional funds arising from the tax holiday into network improvements. These major improvements are being realized under Maynilad's five-year, Pesos 38 billion (US$866.8 million) capex program.

## Meralco

The volume of electricity sold by Meralco rose 10% in 2010 to 30,247 GWh, driven by strong growth from all sectors led by industry. System loss declined to a 36-year low of 7.94% from 8.61%, largely on the strength of energy sales to the industrial sector. Large industrial customers are served at the primary distribution voltage-level, with the result that an increase in their share of electricity consumption reduces the possibility of technical losses, which account for the bulk of total system loss. Meralco continues to institutionalize loss-reduction initiatives through improving pilferage management and expanding its partnership with local government units as part of system loss management in high-density residential areas.

Service revenues ↑ 34%

- to Pesos 239.1 billion (US$5.3 billion) from Pesos 178.7 billion (US$3.7 billion)
- reflecting a 10% increase in energy sales to 30,247 GWh, higher average purchased power and transmission pass-through cost, and higher average tariffs under the Performance Based Regulatory ("PBR") regime

Core net income ↑ 74%

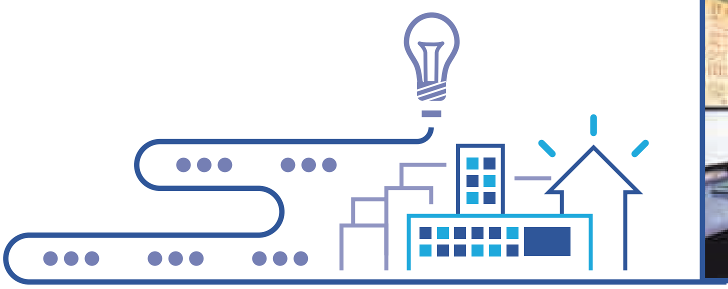
- to record high Pesos 12.2 billion (US$270.9 million) from Pesos 7.0 billion (US$146.5 million)
- due to higher tariffs and energy sales

EBITDA margin ↑ 4%

- to 7.4% from 7.1%
- on higher average tariffs

Consolidated debt ↓ 3%

- to Pesos 21.2 billion (US$483.6 million) from Pesos 21.8 billion (US$471.9 million)
- reflecting an improved cash position of Meralco due to improved earnings in the year
- 79% of the total debt is long-term



In February 2010, Meralco's board of directors approved a dividend policy of a regular payout of 50% of core net income plus a "look back" approach at the end of the year for any supplementary special dividend. The Board approved the declaration of cash dividend of Pesos 2.65 per share, payable on 20 April 2011, bringing total 2010 payout to Pesos 6.45 per share or 60% of core earnings.

Looking ahead, Meralco is focused on capturing a greater share of the electricity business and providing greater service efficiency to all consumers – residential, commercial and industrial. This will be achieved through its relentless pursuit of efficiency as an electricity distributor and entry into power generation and retail electricity supply. Meralco has announced it is initially targeting 900 MW-1,500 MW of generating capacity in conjunction with various partners.

## MPTC

MPTC, through its 67.1% interest in MNTC and 46.0% interest in Tollways Management Corporation ("TMC"), operates the North Luzon Expressway ("NLEX"), the Subic Clark Tarlac Expressway ("SCTEX") and the Subic Freeport Expressway. The franchise for NLEX runs until 2037.

In November 2010, the Bases Conversion and Development Authority granted MNTC a franchise to operate and maintain the 94-kilometer SCTEX for 25 years and renewable for another 8 years to 2043. The total MPTC toll road network comprises a total of 187 kilometers for a 62% share of all toll roads in the Philippines.

MPTC's improvement in operational performance continues. The 2.7-kilometer Segment 8.1 opened in June 2010 and average daily traffic rose 6% to 159,882 vehicle entries per day in 2010 from 150,395 a year earlier as a result of marketing initiatives and stable fuel prices leading to longer average journeys as well as increases in the number of vehicles entering the toll road system.

Revenues ↑ 7%
- to Pesos 5.9 billion (US$130.1 million) from Pesos 5.5 billion (US$114.8 million)
- reflecting higher traffic volumes and longer average journeys as a result of marketing initiatives aimed at boosting local tourism and higher traffic from commercial vehicles in spite of the gradual increase in fuel prices

Core net income ↑ 20%
- to Pesos 1.5 billion (US$33.3 million) from Pesos 1.2 billion (US$25.5 million)
- reflecting a higher number of vehicles entering the system, longer journey times and lower maintenance costs
- in part to non-recurring payment of Pesos 53 million (US$1.2 million) from PLDT for access to fiber-optic cables
- reclassification of debt issue costs as part of loan restructuring

Core EBITDA ↑ 11%
- to Pesos 3.7 billion (US$82.1 million) from Pesos 3.3 billion (US$69.0 million)
- reflecting a 6% decline in cost of services on lower provisioning for heavy maintenance

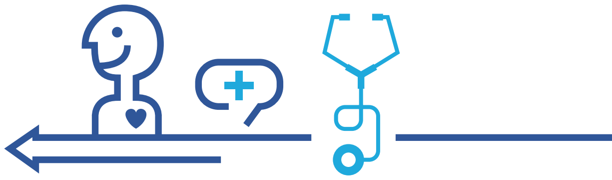
Reported net income ↑ 71%
- to Pesos 996 million (US$22.1 million) from Pesos 582 million (US$12.2 million)

Completion of a detailed engineering study in December 2010 for the building of Segments 9 and 10 – collectively called the Harbour Link – paves the way for connection of NLEX to the Port Area of Manila, with construction beginning by the end of 2011 and expected to be completed in 2014. The Harbour Link will promote commerce by allowing 24-hour access for commercial vehicles to the Port Area to and from NLEX, while reducing travel time for motorists accessing NLEX from Western Metro Manila.

Segment 11, or the Connector Road Project, aims to improve convenience for all motorists by slashing the travel time between the Northern and Southern toll road systems to no more than 20 minutes from well over an hour today. In detail, Segment 11 is a 13.5-kilometer, four-lane elevated expressway that will be routed over the existing Philippine National Railway tracks to reduce right-of-way issues. It will connect the Harbour Link to South Luzon Expressway/Skyway via Buendia Avenue in Makati City.

The Harbour Link and Connector Road projects will see MPTC invest a total of Pesos 25 billion (US$570.3 million) to complete construction. The takeover of SCTEX is now expected to be completed by the second quarter of 2011. Once SCTEX is integrated with NLEX, motorists traveling between the two toll roads will enjoy seamless travel to Northern Luzon.

## Healthcare



MPIC is developing the Philippines' first nationwide premier healthcare portfolio of hospitals to deliver world-class services including diagnostic, therapeutic and preventive medicine services. The Hospital Group now comprises Makati Medical Center, Cardinal Santos Medical Center, and Our Lady of Lourdes Hospital in Metro Manila, Riverside Medical Center, Inc. in Bacolod and Davao Doctors Hospital Inc. in Davao. With an increased focus on marketing improved services, it is expected that investments in equipment and personnel will begin to add to the Hospital Group's bottom line in 2011. The MPIC healthcare division's total bed capacity rose 61% to 1,599 beds at the end of the year. There is a total of 3,105 accredited medical doctors and 4,931 hospital staff as well as 4,663 students at the end of 2010.

Revenues ↑ 18%

- to Pesos 6.6 billion (US$146.7 million) from Pesos 5.5 billion (US$115.5 million)
- owing to the consolidation of RMCI from June 2010 and Our Lady of Lourdes Hospital from November 2010

EBITDA ↑ 7%

- to Pesos 1.34 billion (US$28.9 million) from Pesos 1.25 billion (US$26.1 million)
- due to the addition of RMCI and Our Lady of Lourdes Hospital during the year
- partially offset by reduced earnings at MMC and DDH due to lower enrollees in schools

Core net income ↓ 10%

- to Pesos 474 million (US$10.5 million) from Pesos 528 million (US$11.0 million)
- principally reflecting higher operating expenses for personnel, equipment and infrastructure following investments in improved facilities, and lower revenues from the nursing colleges

The healthcare division continues to invest in improving infrastructure, equipment and facilities, leveraging its technical and professional expertise to expand services and enhance operational efficiency across its hospitals. The division continues to evaluate opportunities for expansion through the acquisition of additional hospitals in strategic areas in the Philippines.

## Manila North Harbour – Divested

In June 2010, MPIC divested its entire 35.0% interest in Manila North Harbour Port, Inc. to its joint venture partner Harbour Center Port Terminal, Inc. with investment costs fully recovered.

## 2011 Outlook

The longer term prospects for each portfolio company are very positive. Meralco plans to participate in electricity generation and retail electricity sales; Maynilad is accelerating its development to reach unserved and underserviced customers in the water franchise area; MPTC is pushing ahead with plans to increase traffic volumes by connecting the Northern and Southern toll road networks through Metro Manila while exploring possible acquisitions; and the integration of the existing five hospitals under the healthcare division is ongoing with further additions to the division possible in 2011. MPIC is actively exploring opportunities for further investment in infrastructure such as expansion and modernization of airports and expansion and improvement of light rail in Metro Manila.

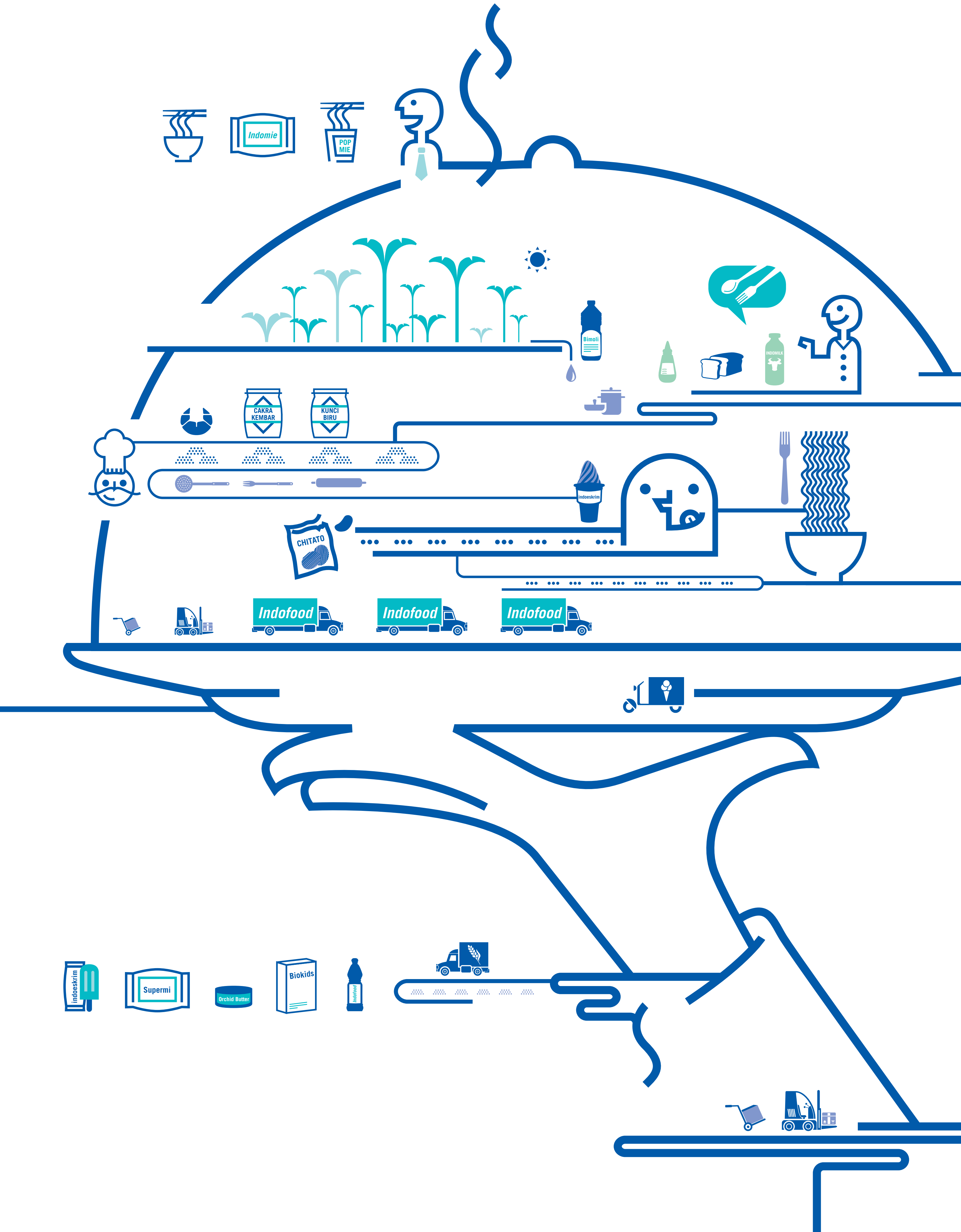
## Reconciliation of Reported Results Between MPIC and First Pacific

MPIC's operations are principally denominated in peso, which averaged Pesos 45.04 (2009: 47.81) 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. dollars. Philippine GAAP and Hong Kong GAAP are largely based on IFRSs, however, certain adjustments need to be made to MPIC's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

| Peso millions | **2010** | 2009 |
|---|---|---|
| Net income under Philippine GAAP | **2,871** | 2,300 |
| Differing accounting and presentational treatments[i] | | |
| - Reclassification of non-recurring items | **994** | (118) |
| - Others | **(58)** | – |
| Adjusted net income under Hong Kong GAAP | **3,807** | 2,182 |
| Foreign exchange and derivative gains[ii] | **(9)** | (135) |
| MPIC's net income as reported by First Pacific | **3,798** | 2,047 |
| US$ millions | | |
| Net income at prevailing average rates for 2010: Pesos 45.04 and 2009: Pesos 47.81 | **84.3** | 42.8 |
| Contribution to First Pacific Group profit, at an average shareholding of 2010: 55.6% and 2009: 77.0% | **46.9** | 33.0 |

(i) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP, and other presentational differences. 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 2010 of Pesos 994 million principally represents share of Meralco's non-recurring losses. Adjustment for 2009 of Pesos 118 million principally represents Maynilad's reversal of provision for deferred credits following a resolution of the issue of new tariff rates with the regulator.
- Others: The adjustment principally relates to revenue recognition regarding pre-completion contracts for sale of development properties. Under Philippine GAAP, MPIC recognizes revenue from pre-completion contracts for sale of development properties based on the percentage of completion method. HKAS 18 "Revenue" and HK (IFRIC) -Int 15 "Agreements for the Construction of Real Estate" requires the recognition of revenue for such contracts based on the satisfaction of certain conditions, which includes the transfer of significant risks and rewards of ownership of the properties to the buyers and the absence of continuing managerial involvement to the degree usually associated with ownership and effective control over the properties sold.

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


Indomie
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KUNCI BIRU
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indoeskrim
Supermi
Orchid Butter
Biokids
indofood

# TOTAL FOOD SOLUTIONS

Indofood
THE SYMBOL OF QUALITY FOODS

Contribution

+92.9%

US$172.1 million

# Review of Operations

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 | **2010** | 2009 | % change | **2010** | 2009 | % change |
| Consumer Branded Products | | | | | | |
| - Noodles | **1,381.9** | 1,128.5 | +22.5 | **220.0** | 150.8 | +45.9 |
| - Dairy | **372.3** | 304.3 | +22.3 | **46.6** | 9.9 | +370.7 |
| - Food Seasonings | **84.6** | 55.0 | +53.8 | **2.6** | 2.6 | – |
| - Snack Foods | **107.9** | 68.0 | +58.7 | **6.8** | 4.1 | +65.8 |
| - Nutrition and Special Foods | **53.3** | 41.8 | +27.5 | **5.3** | 2.7 | +96.3 |
| Subtotal | **2,000.0** | 1,597.6 | +25.2 | **281.3** | 170.1 | +65.4 |
| Bogasari | **1,399.7** | 1,330.6 | +5.2 | **187.3** | 125.5 | +49.2 |
| Agribusiness | | | | | | |
| - Plantations | **768.5** | 584.2 | +31.5 | **269.8** | 184.8 | +46.0 |
| - Edible Oils and Fats | **736.6** | 578.6 | +27.3 | **(2.0)** | 4.7 | – |
| Subtotal | **1,505.1** | 1,162.8 | +29.4 | **267.8** | 189.5 | +41.3 |
| Distribution | **326.0** | 277.4 | +17.5 | **11.8** | 7.3 | +61.6 |
| Inter-segment elimination | **(1,002.8)** | (779.7) | +28.6 | **–** | – | – |
| Total | **4,228.0** | 3,588.7 | +17.8 | | | |
| **Segment Result** | | | | **748.2** | 492.4 | +51.9 |
| Net borrowing costs | | | | **(111.1)** | (133.4) | -16.7 |
| Share of profits less losses of associates and joint ventures | | | | **(2.2)** | 0.3 | – |
| **Profit Before Taxation** | | | | **634.9** | 359.3 | +76.7 |
| Taxation | | | | **(175.7)** | (113.3) | +55.1 |
| **Profit for the Year** | | | | **459.2** | 246.0 | +86.7 |
| Non-controlling interests | | | | **(287.1)** | (156.8) | +83.1 |
| **Contribution to Group Profit** | | | | **172.1** | 89.2 | +92.9 |

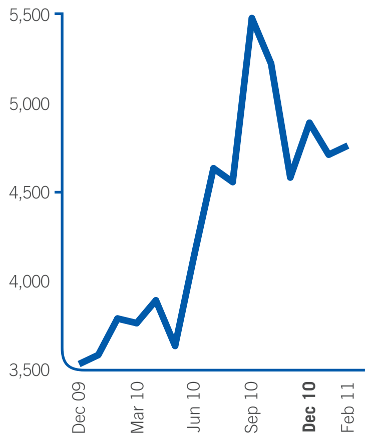
Indofood's improved financial performance continued into its sixth year in 2010 with increased contributions from all of its four complementary strategic businesses: Consumer Branded Products ("CBP"), Bogasari, Agribusiness and Distribution. Indofood is a vertically integrated food company with production operations ranging from raw materials through to consumer branded products to the distribution of these products to a market of more than 230 million people across the archipelago of Indonesia.

Indofood's contribution to the Group increased 93% to US$172.1 million (2009: US$89.2 million), principally reflecting the stronger performance across the strategic business group and a 14% appreciation of the average Rupiah rate against the U.S. dollar.

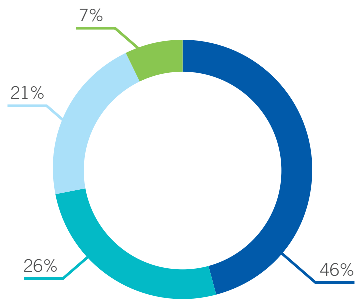
Consolidated net sales
↑ 3%

- to Rupiah 38.4 trillion (US$4.2 billion) from Rupiah 37.4 trillion (US$3.6 billion)
- reflecting the increase in sales of all groups except Bogasari due to lower flour price in conjunction with lower global wheat price
- contributions from CBP, Bogasari, Agribusiness and Distribution groups were 46.0%, 25.7%, 20.6% and 7.7% respectively

## Share Price Performance



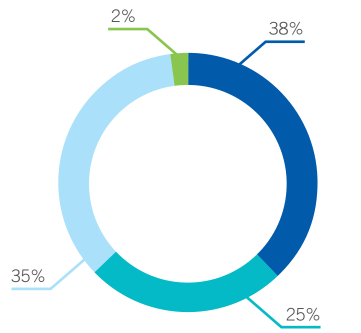

## Turnover 2010*




| | US$ millions |
|---|---|
| Consumer Branded Products | 1,943.9 |
| Bogasari | 1,086.4 |
| Agribusiness | 871.7 |
| Distribution | 326.0 |
| **Total** | **4,228.0** |

* After inter-segment elimination

## Operating Profit 2010




| | US$ millions |
|---|---|
| Consumer Branded Products | 281.3 |
| Bogasari | 187.3 |
| Agribusiness | 267.8 |
| Distribution | 11.8 |
| **Total** | **748.2** |

Gross profit margin

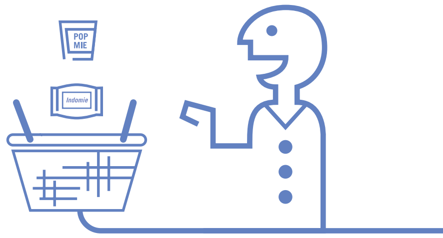
- to 32.5% from 27.3%
- reflecting strong performance across the groups

Consolidated operating expenses ↑ 6%

- to Rupiah 5.7 trillion (US$627.5 million) from Rupiah 5.4 trillion (US$521.8 million)
- due to higher variable selling expenses in conjunction with increases in sales volumes
- higher employee-related expenses

EBITDA margin

- to 17.5% from 13.4%
- resulting from the increase in gross profit, despite higher operating expenses




Core net income ↑ 73%

- to Rupiah 3.0 trillion (US$328.1 million) from Rupiah 1.7 trillion (US$166.9 million)
- reflecting stronger operating results

Net income ↑ 42%

- to Rupiah 3.0 trillion (US$325.0 million) from Rupiah 2.1 trillion (US$200.6 million)
- reflecting strong operating results and lower net interest expenses

Net gearing

- to 0.16 times from 0.83 times at the end of 2009 after taking into account the equity of minority interests in subsidiaries

## Refinancing and Debt Profile

As at the end of December 2010, Indofood recorded gross debt of Rupiah 14.3 trillion (US$1.6 billion), down from Rupiah 17.3 trillion (US$1.8 billion) a year earlier. Of the end-2010 debt total, Rupiah 5.1 trillion (US$0.6 billion) matures within a year. The remaining Rupiah 9.2 trillion (US$1.0 billion) matures between 2012 and 2018.

## Consumer Branded Products (CBP)

The CBP group comprises Noodles, Dairy, Food Seasonings, Snack Foods (including Biscuits) and Nutrition & Special Foods. The CBP group reported significantly improved performance in 2010 as a result of its competitiveness, strong brand equity and distribution network.

All of the consumer branded product subsidiaries were consolidated under a single wholly-owned subsidiary, PT Indofood CBP Sukses Makmur (ICBP) on 17 March 2010. It was listed on the Indonesia Stock Exchange on 7 October 2010.

Indofood's Noodles division is one of the world's largest producers of instant noodles. It has 15 production plants in Indonesia and one in Malaysia with a combined annual production capacity of around 15.7 billion packs per year. Indomie, Supermi, Sarimi, Sakura, Pop Mie, Pop Bihun and Mi Telur Cap 3 Ayam are the popular brands. Sales volumes continued to grow in 2010 partly due to a strengthening economy and also as a result of focusing on higher value-added products and improved distribution penetration.


The Dairy division, Indolakto, is one of the largest dairy products manufacturers in Indonesia with the flagship brand Indomilk encompassing sweetened condensed milk, UHT milk, sterilized bottled milk, pasteurized liquid milk as well as powdered milk, ice cream, yogurt drinks and butter. Consumption per capita for dairy products in Indonesia remains low at around 10 liters per year. In conjunction with increasing consumer awareness of the nutritional value of dairy products, volume continued to increase in 2010. To meet increasing demand, Indolakto plans to build a new factory with completion coming in stages starting in 2012.

The Food Seasonings division manufactures a wide range of culinary products, of which instant seasonings and chili sauce are the most popular. The division also produces soy sauce, tomato sauce and other condiments. All of its culinary products are marketed by PT Nestlé Indofood Citarasa Indonesia, a joint venture between Indofood and Nestlé. The division also manufactures, markets and sells syrup, a product whose sales have grown in the last few years as a result of strengthening brand equity and visibility. The Food Seasoning division's sales volumes in 2010 improved as a result of the success of bumbu Racik, and higher chili sauce and syrup sales.

The Snack Foods division maintained its leadership position through its leading brands Chitato and Lays (potato chips), and Qtela (cassava chips), and the introduction of new products and packaging. Biscuits are marketed under the brand names Trenz and Wonderland. Sales volumes increased, led by high growth in cassava chips, potato chips and biscuits, stimulated by focused marketing programs, enhanced product visibility in modern and traditional outlets as well as by increased distribution penetration in traditional outlets.

The Nutrition & Special Foods division produces food for babies, children, and milk for expectant and lactating mothers under two brands: Promina caters to higher-income groups, while SUN is marketed to the lower-middle segment. Sales volumes in 2010 continued to increase through focused marketing strategies.

Sales ↑ 10%

- to Rupiah 18.2 trillion (US$2.0 billion) from Rupiah 16.5 trillion (US$1.6 billion)
- accounted for 46.0% (2009: 43.4%) of Indofood's consolidated sales
- reflecting higher sales volumes across all divisions driven by enhanced marketing strategies and higher average selling prices, and higher domestic demand in conjunction with the general improvement in the economy

Sales volume

- Noodles up 4.5% to 11.5 billion packs from 11.0 billion packs
- Dairy up 5.0% to 176.4 thousand tonnes from 168.0 thousand tonnes and in liters up 2.8% to 92.1 million liters from 89.6 million liters
- Food Seasonings up 15.5% to 73.5 thousand tonnes from 63.7 thousand tonnes
- Snack Foods up 26.8% to 20.1 thousand tonnes from 15.9 thousand tonnes
- Nutrition & Special Foods up 16.8% to 14.6 thousand tonnes from 12.5 thousand tonnes

EBIT margin

- to 14.4% from 10.9%
- reflecting margin improvement across the divisions
- the Noodle division's margins rose to 16.4% from 12.7% on higher volume and average selling prices
- the Dairy division's margins improved significantly to 12.5% from 7.5% due to on higher volume and average selling prices
- the Food Seasoning division's margins rose to 2.5% from 2.3% because of on improved sales
- the Snack Foods division's margins rose to 6.4% from 5.7% on higher volume
- the Nutrition & Special Foods division's margins improved to 10.3% from 7.5% reflecting higher volume, despite the increase in raw material cost

Despite increasing concerns on inflation rate, the outlook of domestic economy in 2011 is still positive. Demand for packaged food products is expected to continuously grow along with the rising income per capita, urbanization level and lifestyle changes. To capture increasing in demand, CBP group will expand its production capacity particularly in Dairy, Food Seasonings and Snack Foods.

## Bogasari

Bogasari has been operating in Indonesia for more than three decades and has long been a member of the Indofood group, with flour mills located in Jakarta and Surabaya. Bogasari produces wheat flour as well as pasta for both domestic and international markets. Its brands, among others, are Cakra Kembar, Segitiga Biru, Kunci Biru and Lencana Merah for wheat flour, and La Fonte for pasta. It also has its own maritime unit which has 2 panamax and 4 handymax vessels that are used mainly to transport wheat from suppliers in Australia and the northern hemisphere. In addition, it also operates a packaging factory that produces polypropylene bags.

Sales ↓ 9%

- to Rupiah 12.7 trillion (US$1.4 billion) from Rupiah 14.0 trillion (US$1.3 billion)
- accounted for 25.7% (2009: 28.6%) of Indofood's consolidated net sales
- reflecting a decline in flour price in conjunction to lower global wheat price

Sales volume of food flour ↑ 2%

- to 2.29 million tonnes from 2.24 million tonnes

EBIT margin

- to 14.1% from 9.5%
- reflecting the group's strategy of focusing on margin improvement

The flour industry is expected to continue growing, as consumption per capita at 18 kg per year is still low in comparison with neighboring countries. Urbanization will also catalyze the industry's growth in light of the growing popularity of modern Western fast-food franchises and associated lifestyle changes, primarily within younger generation. However, competition will likely to intensify with the continuing entrance of new players.

## Agribusiness

The Agribusiness group consists of two divisions: "Plantations" and "Edible Oils and Fats", which operate through Indofood's 57.8%-owned Singapore-listed subsidiary Indofood Agri Resources Ltd. ("IndoAgri") and IndoAgri's 53.5% owned Indonesia-listed subsidiary, PT PP London Sumatra Indonesia Tbk ("Lonsum"). The Agribusiness group is a market leader in Indonesia's branded cooking oil and margarine segments, and is one of the lowest-cost palm oil producers in the world.

The Agribusiness group is vertically integrated, producing a number of leading food products derived from palm oil. Its operations cover the entire value chain from research and development, oil palm seed breeding and oil palm cultivation to milling, refining, branding and marketing of cooking oil, margarine, shortening and other palm oil derivative products. It also operates rubber, sugar cane, cocoa, tea and coconut plantations.


### Plantations

IndoAgri and Lonsum have a combined planted area of 242,107 hectares at the end of 2010, up 6.3% from 227,721 hectares a year earlier. Oil palm is the dominant crop, and 43% of the oil palms are younger than seven years old. During the year, new plantings of oil palms was 15,041 hectares and the crude palm oil ("CPO") extraction rate was at 22.3%. The planted area of sugar cane increased by 2,630 hectares to 11,302 hectares. The group operates 20 palm oil mills with a total annual processing capacity of 4.5 million tonnes of fresh fruit bunches. The North Sumatra oil palm estates and mills, which produce 170,000 tonnes of sustainable CPO annually, have attained certification from the Roundtable on Sustainable Palm Oil.

### Edible Oils and Fats

This division manufactures cooking oils and fats and markets products under various brands for both export and domestic consumption. IndoAgri's main premium branded products, Bimoli and Simas Palmia, have leading market shares in the branded cooking oils and margarine segment in Indonesia. Approximately 75% of margarine and shortening sales were industrial packs supplied to domestic bakeries, snack and biscuit manufacturers. The division has refinery capacity of 1.0 million tonnes per annum as of 31 December 2010 and approximately 90% of this division's refinery needs are sourced from the plantation division's CPO production. The division also produces crude coconut oil and derivative products, most of which are exported to the United States, Europe, and Asia. The division operates three copra-crushing plants with a combined annual production capacity of 270,000 tonnes.

Sales ↑ 14%

- to Rupiah 13.7 trillion (US$1.5 billion) from Rupiah 12.0 trillion (US$1.2 billion)
- reflecting higher commodity prices despite lower sales of edible oil products and flat CPO sales due to lower production caused by adverse weather
- accounted for 20.6% (2009: 20.4%) of Indofood's consolidated sales
- Plantations and Edible Oils and Fats accounted for 51% and 49%, respectively, of the total sales of Agribusiness

EBIT margin

- to 16.7% from 14.7%
- reflecting higher average selling prices of plantation crops
- offset in part by a decline in the Edible Oils and Fats margin to 0.2% from 0.6% owing to stiffening competition

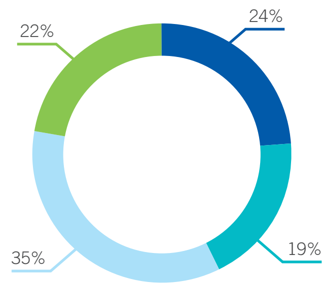
Sales volume of CPO ↓ 4%

- decreased to 728 thousand tonnes from 759 thousand tonnes
- reflecting lower production
- mature oil palm plantation increased by 22,840 hectares as more trees came into maturity in South Sumatra and Kalimantan

The Agribusiness group's expansion focus is on new palm and sugar plantings. It is building two palm oil mills, in Kalimantan and South Sumatra, each capable of processing 45 tonnes of fresh fruit bunches per hour. The Agribusiness group also plans to complete construction in 2011 of a sugar refinery in South Sumatra capable of processing 8,000 tonnes per day of sugar cane. The Jakarta refinery with annual refining capacity of 420 thousand tonnes has been completed in the fourth quarter of 2010.

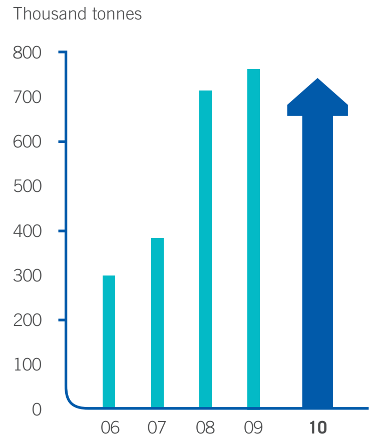
The Medan fractionation plant capacity increased by 100 tonnes per day in June 2010 and its margarine capacity increased by 60 tonnes per day in May 2010. The Surabaya fractionation plant will increase capacity by 300 tonnes per day in the first quarter of 2011.

### Age Profile of Oil Palm Plantations




| | Hectares |
|---|---|
| Immature areas | 49,664 |
| 4 - 6 years | 39,010 |
| 7 - 20 years | 71,443 |
| Above 20 years | 44,947 |
| **Total** | **205,064** |

### Crude Palm Oil (CPO) Production

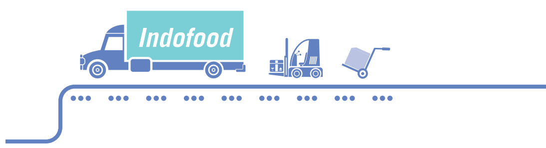



## Distribution

The Distribution group is a major component of Indofood's Total Food Solutions chain of operations as it has the most extensive distribution network of stock points in Indonesia. It distributes the majority of Indofood's consumer products and third-party products across the archipelago. Indofood increased its market penetration and service standard through its stock points which are located in areas with a high density of retail outlets, ensuring high product availability. To further improve product visibility and increase availability, the Distribution group engaged merchandisers and canvassers, in conjunction with marketing efforts and promotions with its principals.

Sales ↑ 3%

- to Rupiah 3.0 trillion (US$326.0 million) from Rupiah 2.9 trillion (US$277.4 million)
- accounted for 7.7% (2009: 7.7%) of Indofood's consolidated net sales
- reflecting higher sales volumes from CBP group




EBIT margin

- to 3.2% from 2.6%

The Distribution group will further leverage its distribution system for increasing penetration in rural areas. Internal controls will continue to ensure higher cost efficiency. Its sales force will enhance communication with retail outlets to better understand and respond to customers' needs, while its team of merchandisers will ensure high product visibility in retail outlets.

## 2011 Outlook

The Indonesian economy is expected to continue growing at a healthy pace, fueled by domestic consumption. Demand for Indofood's products is expected to be strong as the largest portion of private consumption expenditures is on food. Indofood will focus on maximizing synergies within the group through enhancement of marketing strategies, increasing product visibility and penetration in rural areas, as well as further enhancement of product innovation capabilities and expansion of product categories.

On the Agribusiness side, the company expects to commence sugar production in 2011 in conjunction with the completion of its South Sumatra sugar mill.

The CBP group will continue refinement of its marketing strategies and expand its product offerings in 2011.

The flour industry is expected to continue growing, as consumption per capita at 18 kg per year is still low in comparison with other neighboring countries. Urbanization will also spur industry growth in light of the growing popularity of modern Western fast-food franchises and associated lifestyle changes, primarily among the younger generation.

Competition is likely to intensify with the continuing entry of new players. To address the challenges, Bogasari will strive to retain market leadership by implementing sound strategies in marketing, distribution and operations. Efforts to increase brand equity and deepen customer loyalty will be continued through the use of above-the-line and below-the-line activities, while relationships with SMEs will be strengthened through various educational and other programs. Distribution channels will also be improved to implement an effective channel strategy aimed at enhancing Bogasari's ability to reach target customers and penetrate untapped areas of the market. Additionally, the group will also enhance research and development activities for product innovation and continuous improvement of product quality.

## Reconciliation of Reported Results Between Indofood and First Pacific

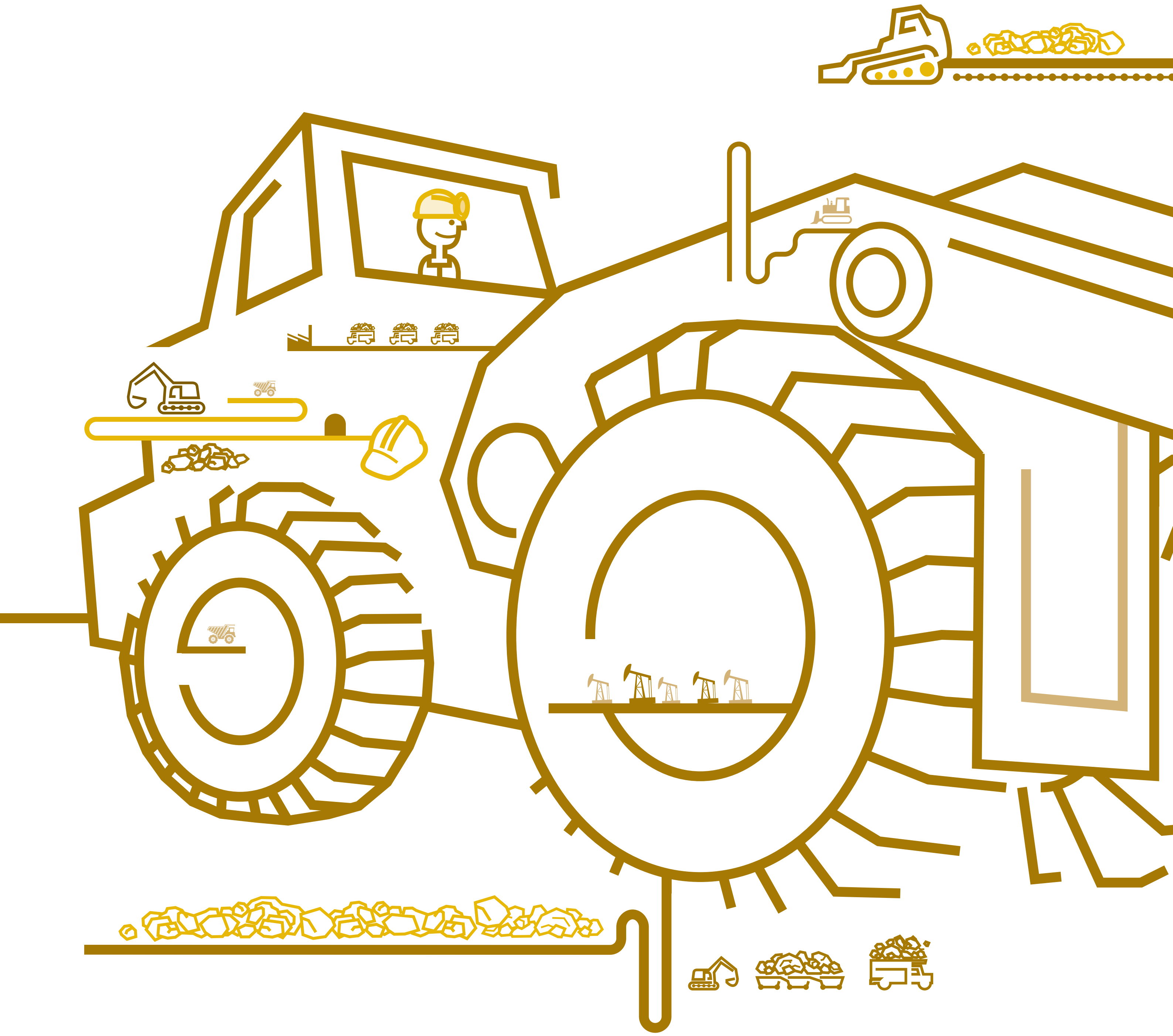
Indofood's operations are principally denominated in rupiah, which averaged Rupiah 9,083 (2009: 10,349) to the U.S. dollar. Its financial results are prepared under Indonesian GAAP and reported in rupiah. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollars. Accordingly, certain adjustments need to be made to Indofood's reported rupiah results to ensure compliance with Hong Kong GAAP. An analysis of these adjustments follows.

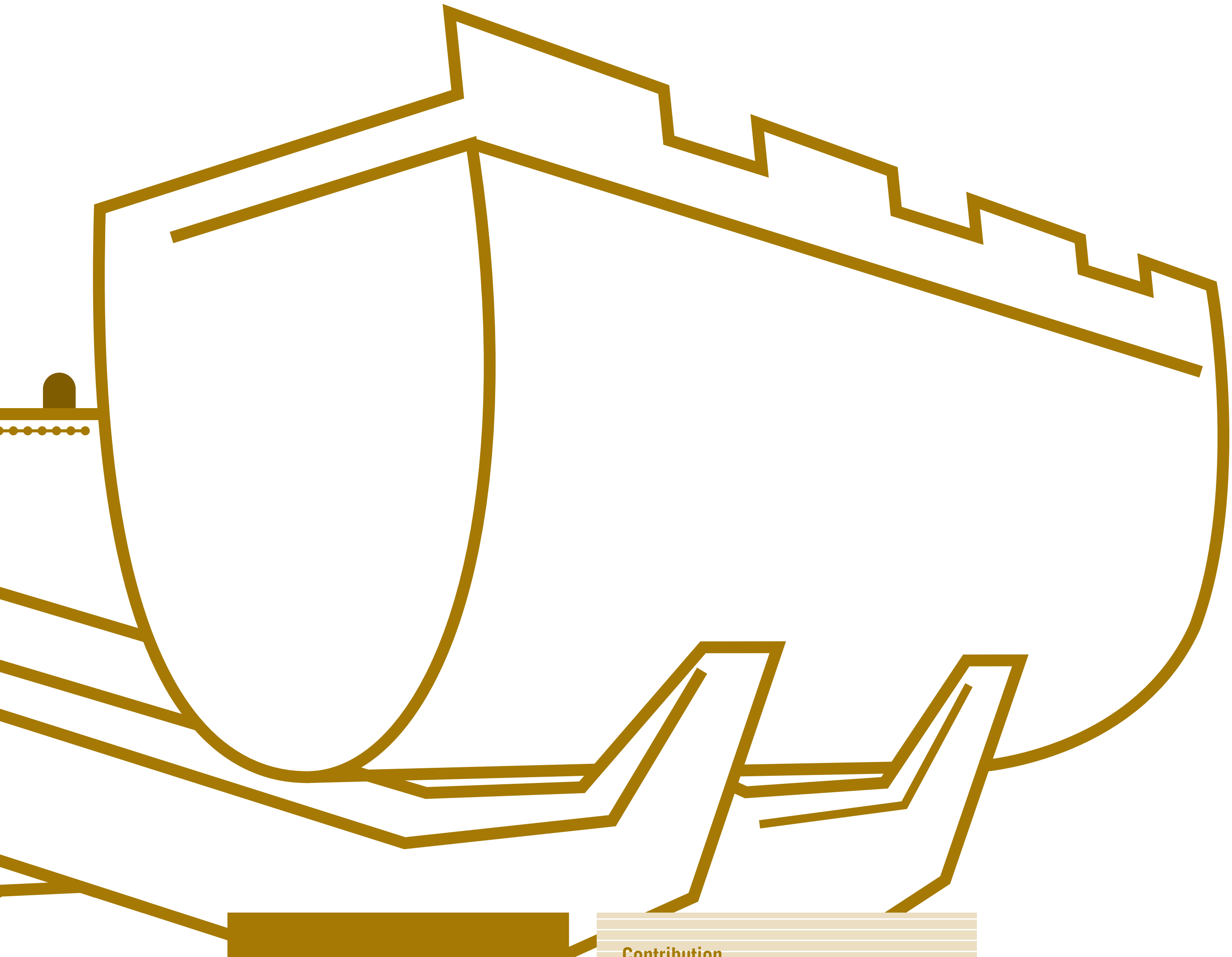
| Rupiah billions | **2010** | 2009 |
|---|---|---|
| Net income under Indonesian GAAP | **2,953** | 2,076 |
| Differing accounting and presentational treatments[(i)] | | |
| - Reclassification of non-recurring items | **104** | 145 |
| - Gain on changes in fair value of plantations | **139** | 206 |
| - Foreign exchange accounting | **54** | 54 |
| - Others | **88** | 63 |
| Adjusted net income under Hong Kong GAAP | **3,338** | 2,544 |
| Foreign exchange and derivative gains[(ii)] | **(77)** | (494) |
| Gain on changes in fair value of plantations[(ii)] | **(139)** | (206) |
| Indofood's net income as reported by First Pacific | **3,122** | 1,844 |
| US$ millions | | |
| Net income at prevailing average rates for 2010: Rupiah 9,083 and 2009: Rupiah 10,349 | **343.7** | 178.2 |
| Contribution to First Pacific Group profit, at an average shareholding of 2010: 50.1% and 2009: 50.1% | **172.1** | 89.2 |

(i) Differences in accounting treatment under Indonesian GAAP, compared with Hong Kong GAAP, and other presentational differences. 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 2010 of Rupiah 104 billion represents Rupiah 126 billion of founder's tax in relation to the spin-off of its Consumer Branded Product businesses and Rupiah 6 billion of impairment provision for assets, partly offset by Rupiah 29 billion of gain on divestment of interest in subsidiary companies. Adjustment for 2009 of Rupiah 145 billion represents Rupiah 63 billion of taxes in relation to the restructuring of its Consumer Branded Product businesses, Rupiah 53 billion of manpower rightsizing costs and Rupiah 29 billion of impairment provision for assets.
- Gain on changes in fair value of plantations: Under Indonesian GAAP, Indofood measures its plantations (biological assets) on a 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.
- 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 have already been written off by First Pacific.
- Others: The adjustments principally relates to reversal of amortization of goodwill. Under Indonesian GAAP, Indofood amortize goodwill arising from business combinations over their estimated useful lives. HKAS 36 "Impairment of Assets" requires annual review (or more frequently if events or changes in circumstances indicate that it might be impaired) instead of amortization.

(ii) To illustrate the underlying operational results and profit contributions, foreign exchange and derivative gains (net of related tax) and gain on changes in fair value of plantations are excluded and presented separately.

# POSITIONED FOR GROWTH





PHILEX
MINING CORPORATION

Contribution

+301.3%

US$30.9 million

# Review of Operations

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

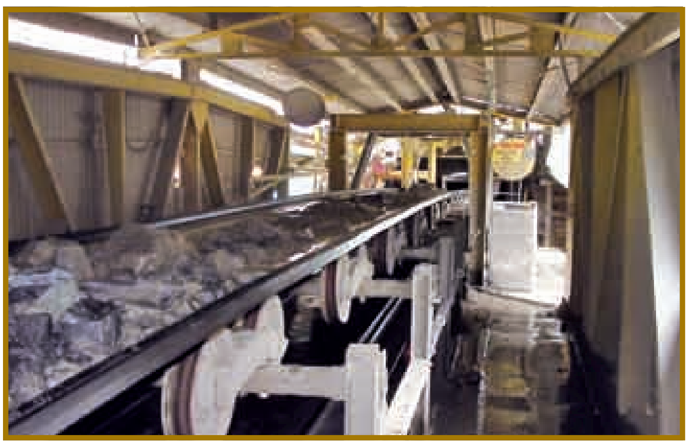
| | Turnover | | | Profit | | |
|---|---|---|---|---|---|---|
| US$ millions | 2010 | 2009 | % change | 2010 | 2009 | % change |
| Mining | **289.4** | 201.6 | +43.6 | **104.3** | 44.5 | +134.4 |
| Oil and gas | **7.3** | 2.6 | +180.8 | **2.7** | 0.5 | +440.0 |
| Total | **296.7** | 204.2 | +45.3 | | | |
| **Segment Result** | | | | **107.0** | 45.0 | +137.8 |
| Net interest income | | | | **0.1** | 1.7 | -94.1 |
| Share of profits less losses of associates and joint ventures | | | | **(0.8)** | (0.2) | +300.0 |
| **Profit Before Taxation** | | | | **106.3** | 46.5 | +128.6 |
| Taxation | | | | **(40.1)** | (18.6) | +115.6 |
| **Profit for the Year** | | | | **66.2** | 27.9 | +137.3 |
| Non-controlling interests | | | | **1.1** | 2.0 | -45.0 |
| **Profit Attributable to Shareholders** | | | | **67.3** | 29.9 | +125.1 |
| Average shareholding (%) | | | | **45.9** | 25.7 | – |
| **Contribution to Group Profit** | | | | **30.9** | 7.7 | +301.3 |

Philex's natural resources portfolio comprises:

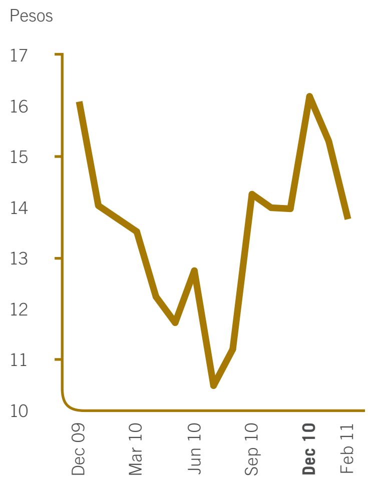
### Metals Group
- Philex Mining Corporation
- Philex Gold Philippines, Inc.
- Silangan Mindanao Mining Co., Inc.

### Energy Group
- Philex Petroleum Corporation, a holding company of Forum Energy Plc, FEC Resources, Inc, Pitkin Petroleum Plc and Brixton Energy and Mining Corporation

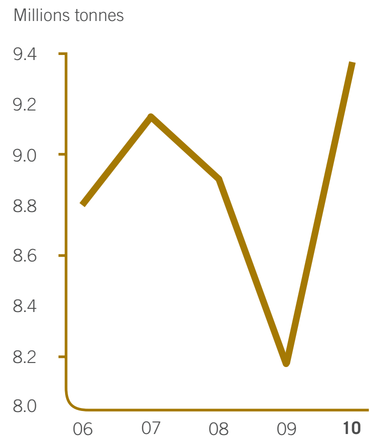
Philex's contribution to the Group increased 301% to US$30.9 million (2009: US$7.7 million) reflecting the Group's higher average economic interest in Philex, higher realized gold and copper prices and increased ore output at the Padcal Mine during the year.



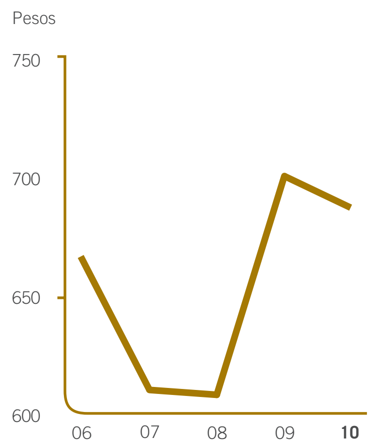
### Share Price Performance




### Ore Milled



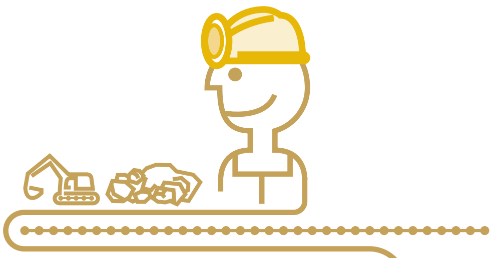

### Operating Cost Per Tonne

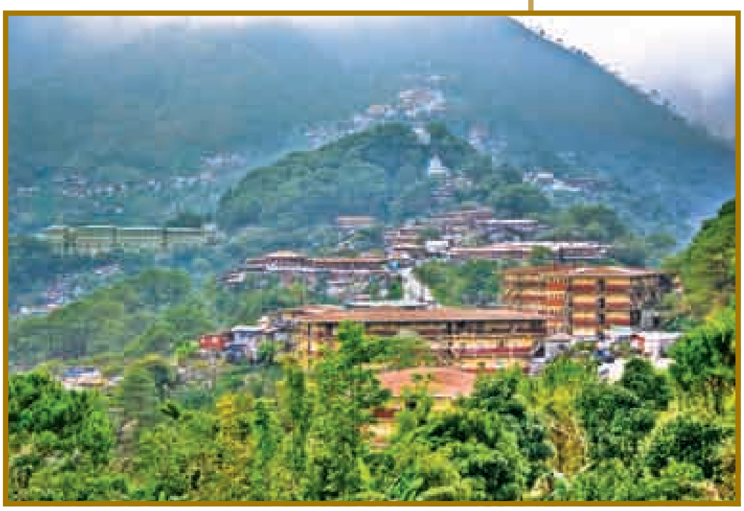


Philex is currently the largest mining company operating a gold-copper mine in the Philippines. It has been operating the Padcal Mine since 1958 and was the first operator of an underground block cave in the Far East. Philex's copper concentrate is mainly shipped to Pan Pacific Copper Company Limited, a smelter based in Saganoseki, Japan. The Padcal Mine has a work force of 2,230. Its operating life is currently slated to end in 2017 but is expected to be extended as total measured resources as of 31 December 2010 amounted to 149 million tonnes.

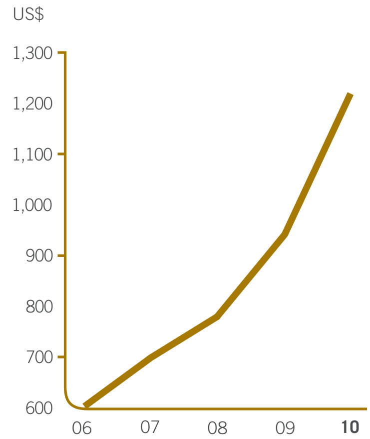
Total ore milled in 2010 increased 15% to 9.4 million tonnes (2009: 8.2 million tonnes), the highest in over a decade, at an average grade of 0.552 grams of gold per tonne (2009: 0.567 grams per tonne) and copper average grade at 0.210% (2009: 0.228%). Concentrate production increased 5% to 65,340 dry metric tonnes (2009: 62,458). Gold production rose 12% to 133,516 ounces (2009: 119,171 ounces) and copper production improved 5% to 35.6 million pounds (2009: 33.8 million pounds). In 2010, the average realized price for gold increased 29% to US$ 1,217 per ounce (2009: US$946 per ounce) and the average realized copper price increased 62% to US$3.63 per pound (2009: US$2.24 per pound). The production cost of ore per tonne was Pesos 534 (US$11.86) versus Pesos 559 (US$11.69) in 2009. Operating revenue increased 48% to Pesos 13.4 billion (US$297.5 million) from Pesos 9.1 billion (US$190.4 million) in 2009. Revenue from gold contributed 54% of total, with copper accounting for 43% and the balance of 3% attributable to silver, coal and petroleum.

As at 31 December 2010, Philex had Pesos 3.8 billion (US$86.2 million) of cash and Pesos 150 million (US$3.4 million) of short-term bank loans.

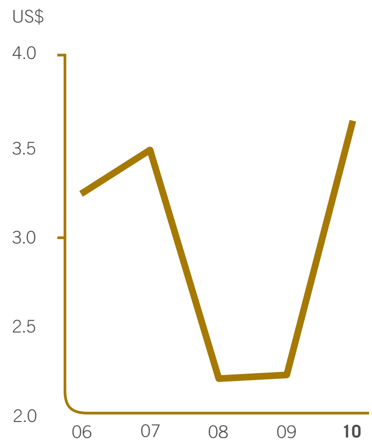




### Average Gold Price Per Ounce




### Average Copper Price Per Pound



Core net income ↑ 124%

- to Pesos 4.2 billion (US$92.1 million) from Pesos 1.8 billion (US$37.6 million)
- due to higher metal prices and ore production
- partially offset by lower ore grades from Padcal Mine

Net income attributable to owners of the parent company ↑ 40%

- to Pesos 4.0 billion (US$88.0 million) from Pesos 2.8 billion (US$59.2 million)
- reflecting largely copper revenue up 53% to Pesos 5.7 billion (US$126.6 million) and gold revenue up 41% to Pesos 7.2 billion (US$159.9 million)
- tonnes milled increased 14% to 9.4 million tonnes while the volume of copper produced rose 5% to 35.6 million pounds and gold increased 12% to 133,516 ounces

Operating costs and expenses ↑ 10%

- to Pesos 7.3 billion (US$162.1 million) from Pesos 6.7 billion (US$139.9 million)
- due to higher volumes of ore produced and higher energy costs

Capital expenditure (including exploration costs) ↑ 13%

- to Pesos 2.6 billion (US$57.7 million) from Pesos 2.3 billion (US$48.6 million)
- comprises a slight decline in capital expenditure on existing operations in Padcal Mine and in coal mine in Zamboanga del Norte to Pesos 1.4 billion (US$31.1 million) from Pesos 1.5 billion (US$31.4 million)
- a 46% increase in exploration, survey, and drilling expenditures in 2010 for new mining projects to Pesos 1.2 billion (US$26.6 million) from Pesos 855 million (US$17.9 million), reflecting its increasing emphasis in the search for, and development of, new mining opportunities

Net foreign exchange loss ↑ 40%

- to Pesos 97 million (US$2.2 million) from Pesos 69 million (US$1.4 million)
- due to a 5.4% appreciation in the Peso/US$ exchange rate

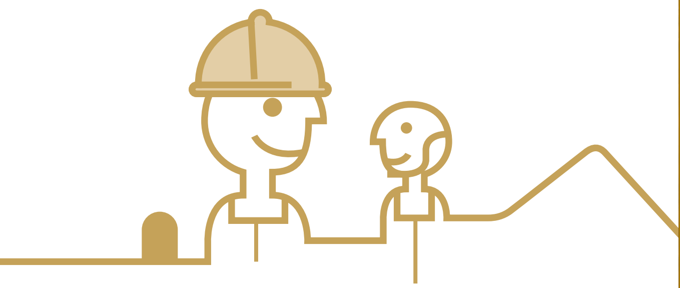
## Dividend

The board of directors of Philex declared a final dividend of Peso 0.16 (U.S. 0.36 cent) per share, bringing the full-year payout to Peso 0.21 (U.S. 0.47 cent), representing a payout ratio of 25% of core earnings.

## Silangan Project

The development project is located in Surigao del Norte, Northern Mindanao in the Philippines, and comprises two gold and copper deposits: Boyongan and Bayugo.

Independent Resources Estimations ("IRES") of South Africa completed a pre-feasibility study on Boyongan in October 2008 and concluded that based on the assumptions used in their report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of 65.8 million tonnes containing 1.39 grams of gold and 0.87% copper per tonne.



Listed below are the resources and proved reserves of the Padcal Mine and Silangan Project based on the latest status:

| | Padcal Mine (as of 31 December 2010) | Silangan Project: Boyongan (as of October 2008) | Silangan Project: Bayugo (as of November 2009) Indicated | Silangan Project: Bayugo (as of November 2009) Inferred |
|---|---|---|---|---|
| Resources (million tonnes) | 149(i) | 105(ii) | 86 | 33 |
| Gold (gram/tonne) | 0.49 | 0.98 | 0.73 | 0.63 |
| Copper (%) | 0.24 | 0.80 | 0.88 | 0.75 |
| Contained copper (thousand lbs) | 800,000 | 1,800,000 | 1,700,000 | 500,000 |
| Contained gold (ounces) | 2,400,000 | 3,300,000 | 2,000,000 | 600,000 |
| Copper equivalent(iii) cutoff (%) | 0.30 | – | – | – |
| Copper cutoff (%) | – | 0.50 | 0.40 | 0.40 |
| Proved reserves (million tonnes) | 90 | Estimation ongoing | | |
| Gold (gram/tonne) | 0.41 | | | |
| Copper (%) | 0.21 | | | |
| Recoverable copper (thousand lbs) | 346,500 | | | |
| Recoverable gold (ounces) | 857,000 | | | |
| Copper equivalent(iii) cutoff (%) | 0.25 | | | |

(i) Measured
(iii) Measured and indicated
(iii) Copper equivalent = % copper + 0.43 x grams/tonne gold; Metal prices: US$3.00/lb copper, US$1,000/oz gold; Metal resources: 82% copper, 73% gold

## 2011 Outlook

The production volume and metal grades from Padcal Mine are expected to remain steady in 2011, and with copper and gold prices remaining stable to strong, revenues are expected to remain likewise stable to strong.

The Silangan Project is expected to move forward on its development phase. At the same time there is ongoing exploration at the Padcal Mine tenement which Philex is optimistic will result in a significant extension of mining operations there. Mining engineers are as well exploring the possibility of reopening the mothballed Bulawan Gold Mine.

Development of the oil and gas operations is on track to deliver an increased contribution to Philex.


## Reconciliation of Reported Results Between Philex and First Pacific

Philex's operations are principally denominated in peso, which averaged Pesos 45.04 (2009: Pesos 47.81) 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. dollars. Philippine GAAP and Hong Kong GAAP are largely based on IFRSs, however, certain adjustments need to be made to Philex's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

| Peso millions | **2010** | 2009 |
|---|---|---|
| Net income under Philippine GAAP | **3,963** | 2,830 |
| Differing accounting and presentational treatments[(i)] | | |
| - Depreciation of revaluation increment of assets | **(570)** | (636) |
| - Revenue recognition regarding sale of mine products | **(22)** | 59 |
| - Reclassification of non-recurring items | **120** | (703) |
| - Others | **(526)** | (283) |
| Adjusted net income under Hong Kong GAAP | **2,965** | 1,267 |
| Foreign exchange and derivative losses[(ii)] | **67** | 164 |
| Philex's net income as reported by First Pacific | **3,032** | 1,431 |
| US$ millions | | |
| Net income at prevailing average rates for 2010: Pesos 45.04 and 2009: Pesos 47.81 | **67.3** | 29.9 |
| Contribution to First Pacific Group profit, at an average shareholding of 2010: 45.9% and 2009: 25.7% | **30.9** | 7.7 |

(i) Differences in accounting treatments under Philippine GAAP, compared with Hong Kong GAAP, and other presentational differences. The principal adjustments include:
- Depreciation of revaluation increment of assets: A fair value assessment was performed at the date of acquisition of Philex and certain revaluation increment adjustments have been made to property, plant and equipment. The adjustment relates to the recognition of additional depreciation based on the revalued fair value of property, plant and equipment.
- Revenue recognition regarding sale of mine products: Philex recognizes revenue based on the production of mine products. HKAS 18 "Revenue" requires the recognition of revenue based on the satisfaction of certain conditions, which includes the transfer of significant risks and rewards of ownership of the products to the buyers and the absence of continuing managerial involvement to the degree usually associated with ownership and effective control over the products sold.
- 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 2010 of Pesos 120 million represents a loss arising upon a reclassification of an investment from associated company to available-for-sale assets due to loss of significant influence in the investment. Adjustment for 2009 of Pesos 703 million principally represents a recognition of Pesos 766 million excess of the fair value over its acquisition cost as income in respect of Philex's acquisition of an additional 50% interest in the Silangan Project.
- Others: The adjustments principally relate to the accrual of withholding tax on Philex's net income in accordance with the requirements of HKAS 12 "Income Taxes".

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

# Chairman's Letter

## Dear Shareholders

I am pleased to report to you that 2010 marked our sixth consecutive year of improved earnings with continued strong results expected in 2011 and going forward. First Pacific reported its highest-ever recurring profit in 2010 and paid shareholders its highest-ever dividend payout.

This was accomplished thanks to strong performances by all our businesses as our more mature businesses continued to generate strong dividends and newer investments began delivering on their own promised returns.

Indofood delivered extremely strong results even as pressures from new and expanding competition as well as from higher input prices continued to test the strength and abilities of its management. All four business groups within Indofood reported stronger margins in 2010 with the company as a whole reporting an EBIT margin of 17.5%, a remarkable accomplishment in a very competitive industry.

PLDT reported stronger earnings in 2010 than a year earlier as a transition from traditional sources of revenues like voice and SMS to new revenue streams like broadband continued to expand. PLDT has reiterated its commitment to its dividend policy that has resulted in a 100% payout ratio for four years in a row.

MPIC delivered a transformational performance in 2010, paying to shareholders its first-ever dividend. The water business continued to grow strongly as a result of steady investment in the water delivery network. The toll roads business continued to show steady expansion with completion of Segment 8.1, longer journey times and a rising number of vehicles on the road. Meralco paid shareholders 60% of recurring profit as it recorded strong growth in earnings. We keenly look forward to its investment in electricity generation as Meralco continues to grow. MPIC's healthcare arm expanded to a total of five hospitals in 2010 and we look forward to more growth there in 2011 and going forward.

At Philex, the Padcal Mine delivered some of its highest-ever results thanks to an increase in production and higher prices for its gold and copper.

In 2010, First Pacific has delivered very well on its promise to shareholders: to manage and enhance the value of their investments. As the premier investment management and holding company for the emerging markets of Asia, First Pacific sees continuing excellent prospects and strong opportunities in its markets.

Sincerely

**Anthoni Salim**
*Chairman*

21 March 2011

# Managing Director and Chief Executive Officer's Letter

## To our Shareholders

It is with great pleasure that I am able to report that your Company delivered record results in 2010 as all our operating units reported considerably stronger earnings and paid out increased dividends.

Recurring profit at First Pacific rose 40% to US$402.1 million as Indofood led contribution increases this years, followed by Philex, PLDT and MPIC. This enabled the Company to pay US$99.4 million in dividend payments to shareholders in respect of 2010 earnings – our highest-ever payout in cash terms and the sound fulfillment of our commitment to deliver a minimum of 25% of recurring profit to shareholders.

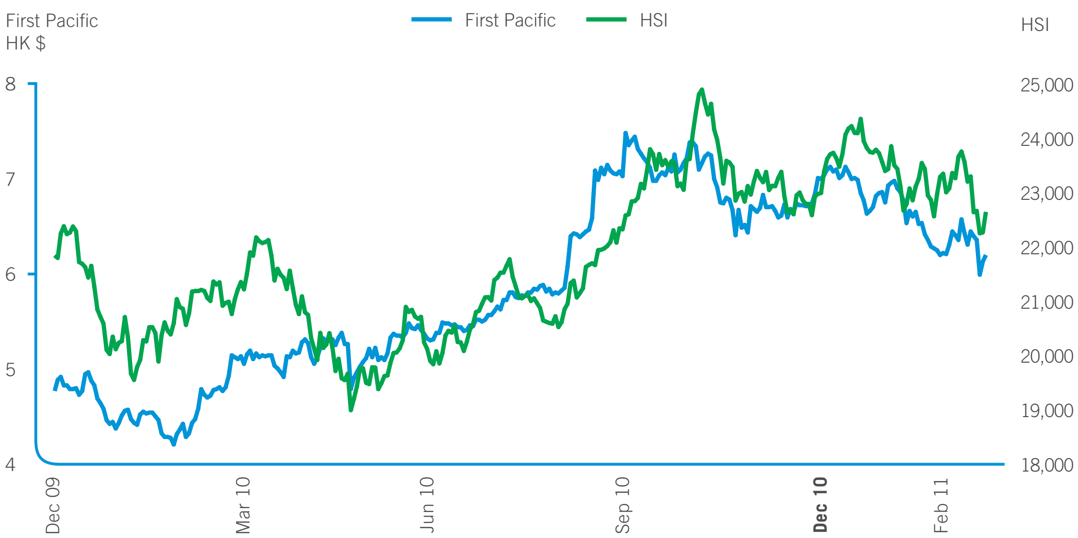
Under our two-year, US$130 million share repurchase program, representing the second plank of First Pacific's capital management program, our share price rose 38% from 1 June, the day the repurchases were announced, to the end of the year.

While barely a year old, First Pacific's capital management program is succeeding well in delivering returns to shareholders in the form of rising share price, increased dividends and share repurhase.

This has been made possible by the strong performances delivered in 2010 by our operating companies, beginning with PLDT. Operating in an increasingly competitive environment, PLDT managed to deliver higher core profit and dividends. In preparation for the expected explosion in demand for broadband services, PLDT announced higher capital expenditures for 2011 and 2012. We are confident that these investments will insure a bright future for PLDT, its shareholders and its customers going forward.

MPIC, the premier infrastructure firm in the Philippines, reported record earnings as Meralco delivered its first full-year contribution and each of its businesses except healthcare reported strong earnings growth. Healthcare, in fact, expanded to five hospitals in 2010, solidifying its position as the leading private-sector healthcare provider in the Philippines. Meralco distributed record volumes of electricity and reported a three-decade low in system losses, underpinning its earnings power and technical efficiencies at the same time as it gears up for a move into generation. MPIC's toll roads arm reported more vehicles driving on its highways for

### First Pacific Share Price vs Hang Seng Index (HSI)



longer journeys in 2010 with the opening of Segment 8.1 and ground-breaking for Segment 9 is expected in the fourth quarter of this year. Further expansion ambitions for the toll roads are being evaluated. Maynilad, the biggest water distributor in the Philippines, delivered more water to more customers in 2010 and plans for further growth in 2011. MPIC is also exploring further infrastructure projects and is keen to participate in the Government's Public-Private Partnership initiatives in 2011 and beyond.

Indofood continues to grow strongly. Its contribution to First Pacific nearly doubled as the Consumer Branded Products, Agribusiness and Distribution groups reported higher sales and all three, joined by the flour group Bogasari, reported stronger margins.

Philex, the most profitable mining company in the Philippines, delivered a four-fold increase in its contribution to First Pacific as higher copper and gold prices together with higher production volumes offset lower ore quality in 2010. Its geologists report promising results from exploration activity and its business development team continues to search for suitable acquisitions as Philex drives its expansion plans.

All in all, every one of First Pacific's operating units aims to build on strong 2010 results to maintain the momentum for earnings growth. All our investments are performing well. All are poised for continuing growth in 2011 and beyond. On behalf of First Pacific's Management I would like to thank our Shareholders for their continuing support of emerging Asia's premier investment management and holding company.

Most cordially

**Manuel V. Pangilinan**
*Managing Director and Chief Executive Officer*

21 March 2011

# Board of Directors and Senior Executives
## Board of Directors

## 1. Anthoni Salim
Chairman

Age 62, born in Indonesia. Mr. Salim graduated from Ewell County Technical College in Surrey, England. He is the President and CEO of the Salim Group, President Director and CEO of PT Indofood Sukses Makmur Tbk. and PT Indofood CBP Sukses Makmur Tbk., and holds positions as Commissioner and Director in various companies.

Mr. Salim serves on the Boards of Advisors of several multinational companies. He was a member of the GE International Advisory Board, and is currently a member of the Advisory Board of ALLIANZ Group, an insurance company based in Germany, and a member of Food & Agribusiness Advisory Board of Rabobank Asia. He joined the Asia Business Council in September 2004.

Mr. Salim is the son of Soedono Salim. He has served as a Director of First Pacific since 1981 and assumed the role of Chairman in June 2003.

## 2. Manuel V. Pangilinan
Managing Director and Chief Executive Officer

Age 64, born in the Philippines. Mr. Pangilinan received a BA from Ateneo de Manila University and an MBA from the University of Pennsylvania Wharton School before working in the Philippines and Hong Kong for the PHINMA Group, Bancom International Limited and American Express Bank. He served as First Pacific's Managing Director after founding the Company in 1981, was appointed Executive Chairman in February 1999 and re-assumed the role of Managing Director and CEO in June 2003.

Mr. Pangilinan has also served as President, CEO and a Director of Philippine Long Distance Telephone Company (PLDT) since November 1998, and of Manila Electric Company (Meralco) since July 2010. He was appointed Chairman of PLDT in February 2004. He is the Chairman of Metro Pacific Investments Corporation, ePLDT, Inc., Smart Communications, Inc., PLDT Communications and Energy Ventures, Inc. (formerly named Pilipino Telephone Corporation), Maynilad Water Services, Inc., Metro Pacific Tollways Corporation, Manila North Tollways Corporation, Philex Mining Corporation, Landco Pacific Corporation, Medical Doctors, Inc. (Makati Medical Center), Davao Doctors, Inc. and Colinas Verdes Corporation (Cardinal Santos Medical Center), Mediaquest Holdings, Inc., and Associated Broadcasting Corporation (TV 5). Mr. Pangilinan is also the President Commissioner of PT Indofood Sukses Makmur Tbk.

In May 2006, the Office of the President of the Philippines awarded Mr. Pangilinan the Order of Lakandula, rank of Komandante in recognition of his contributions to the country. He was named Management Man of the Year 2005 by the Management Association of the Philippines. Mr. Pangilinan was awarded Honorary Doctorates in Science by Far Eastern University in 2010, in Humanities by Holy Angel University in 2008, by Xavier University in 2007 and by San Beda College in 2002 in the Philippines. He was formerly Chairman of the Board of Trustees of the Ateneo de Manila University and was a member of the Board of Overseers of The Wharton School, University of Pennsylvania. Mr. Pangilinan is a member of the ASEAN Business Advisory Council. He holds chairmanships of the Board of Trustees of San Beda College, non-profit organizations Philippine Business for Social Progress (PBSP) and the MVP Sports Foundation, Inc. Mr. Pangilinan is also the President of the Basketball Federation of the Philippines and is Chairman of the Amateur Boxing Association of the Philippines.

## 3. Edward A. Tortorici
Executive Director

Age 71, born in the United States. Mr. Tortorici received a Bachelor of Science from New York University and a Master of Science from Fairfield University. Mr. Tortorici has served in a variety of senior and executive management positions, including Corporate Vice President for Crocker Bank and Managing Director positions at Olivetti Corporation of America and Fairchild Semiconductor Corporation.

Mr. Tortorici subsequently founded EA Edwards Associates, an international management and consulting firm specializing in strategy formulation and productivity improvement with offices in USA, Europe and Middle East.

In 1987 Mr. Tortorici joined First Pacific as an Executive Director for strategic planning and corporate restructuring, and launched the Group's entry into the telecommunications and technology sectors. Presently, he oversees corporate strategy for First Pacific and guides the Group's strategic planning and corporate development activities. Mr. Tortorici serves as a Commissioner of PT Indofood Sukses Makmur Tbk and as Director of Metro Pacific Investments Corporation, Philex Mining Corporation, Maynilad Water Services, Inc., Medical Doctors, Inc., Landco Pacific Corporation, FEC Resources Inc. of Canada and AIM-listed Forum Energy Plc. Mr. Tortorici serves as a Trustee of the Asia Society Philippines, is on the Board of Advisors of the Southeast Asia Division of the Center for Strategic and International Studies, a Washington D. C. non partisan think tank. He also serves as a Commissioner of the U.S. ASEAN Strategy Commission.

## 4. Robert C. Nicholson
Executive Director

Age 55, born in Scotland. Mr. Nicholson is a graduate of the University of Kent, qualified as a solicitor in England and Wales and in Hong Kong. He is an Executive Chairman of Forum Energy Plc and an Independent Non-executive Director of India Capital Growth Fund Limited, both of which are listed on the AIM market of the London Stock Exchange. Mr. Nicholson is also an Independent Non-Executive Director of QPL International Holdings Limited and Pacific Basin Shipping Limited, serves as a Commissioner of PT Indofood Sukses Makmur Tbk, and is a Director of Metro Pacific Investments Corporation, Philex Mining Corporation and Pitkin Petroleum Plc. Previously, he was a senior partner of Richards Butler from 1985 to 2001 where he established the corporate and commercial department, and was also a senior advisor to the board of directors of PCCW Limited between August 2001 and September 2003. He has wide experience in corporate finance and cross-border transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate reorganizations and privatization in China. Mr. Nicholson joined First Pacific's Board in 2003.

# Board of Directors (continued)

## Napoleon L. Nazareno
Non-executive Director

Age 61, born in the Philippines. Mr. Nazareno holds a Bachelor of Science degree in Mechanical Engineering from the University of San Carlos in Cebu and a Master's degree in Business Management from the Asian Institute of Management (AIM). He has also completed the INSEAD Executive Program at the European Institute of Business Administration in Fontainebleau, France.

In 1973, Mr. Nazareno worked as an Assistant Product Manager at the Flexible Packaging Division in Phimco Industries, Inc. and in 1981, he joined the international firm Akerlund & Rausing as Acting Production Manager. In 1989, he was named President and CEO of Akerlund & Rausing (Philippines). Mr. Nazareno served as President and CEO of Metro Pacific Corporation from 1995 to 1999.

In 1998, Mr. Nazareno became President and CEO of PLDT Communications and Energy Ventures, Inc. (formerly named Pilipino Telephone Corporation, a cellular subsidiary of Smart Communications, Inc. (Smart)). He became President and CEO of Smart in 2000 and subsequently assumed the presidency at parent firm Philippine Long Distance Telephone Company in 2004, positions he continues to hold today. Mr. Nazareno is a Director of Manila Electric Company, and a board member of the GSM Association Worldwide since November 2004. He joined First Pacific's Board in 2008.

## Professor Edward K.Y. Chen
*GBS, CBE, JP*
Independent Non-executive Director

Age 66, born in Hong Kong and educated at the University of Hong Kong and Oxford University. Professor Chen is an Independent Non-executive Director of Asia Satellite Telecommunications and Wharf Holdings Limited, and a Non-executive Director of eBizAnywhere Technologies Limited. He was a trustee for Eaton Vance Management Funds. Professor Chen has served as President of Lingnan University; Professor and Director of the Centre of Asian Studies of the University of Hong Kong; Chairman of Hong Kong's Consumer Council; as an Executive Councillor of the Hong Kong Government; and as a Legislative Councillor. He is now a Distinguished Fellow of the Centre of Asian Studies at the University of Hong Kong. Professor Chen joined First Pacific's Board in 1993.

## Graham L. Pickles
Independent Non-executive Director

Age 54, born in Australia. Mr. Pickles holds a Bachelor of Business degree (majoring in accounting). Mr. Pickles has significant experience in the distribution and technology sectors, running several distribution businesses in Asia and Australasia in the IT and telecommunications industries over a career spanning more than 20 years.

He serves as a Commissioner of PT Indofood Sukses Makmur Tbk and was appointed Chairman of Asia Pacific Brands India Limited in 2005. Mr. Pickles was previously CEO of Tech Pacific Holdings Limited, a wholly-owned subsidiary of First Pacific Company Limited until it was sold in 1997. He was also a member of the executive committee of Hagemeyer N.V. in which First Pacific had a controlling interest until 1998. Mr. Pickles joined First Pacific's Board in 2004.

## Sir David W.C. Tang
*KBE, Chevalier de L'Ordre des Arts et des Lettres*
Independent Non-executive Director

Age 56, born in Hong Kong. Sir David was educated locally and then in Cambridge, London and Beijing, where he taught English and Philosophy at Peking University. Sir David is the founder of Shanghai Tang; the China Clubs in Beijing, Hong Kong and Singapore; China Tang in London and Pacific Cigars. He has been advisor to or director of Blackstone, British Airways, Tommy Hilfiger and the Savoy Group of Hotels. Sir David joined First Pacific's Board in 1989.

## Jun Tang
Independent Non-executive Director

Age 48, born in China. He is the President and CEO of Fujian New Huadu Industrial Group Company Limited and a Director of Hong Kong-listed Tsingtao Brewery Company Limited.

Mr. Tang was previously the President of Nasdaq-listed Shanda Interactive Entertainment Company Limited and the Honorary President of Microsoft China Company Limited. He served as the President of Microsoft China and the General Manager of Microsoft Global Technology Center from 1997 to 2002. Mr. Tang also served as the CEO of Wicresoft, a joint venture between Microsoft and the Shanghai government established in 2002. Mr. Tang joined First Pacific's Board in 2009.

### Ambassador Albert F. del Rosario
Non-executive Director

Age 71, born in the Philippines. The former Ambassador of the Republic of the Philippines to the United States of America from October 2001 to August 2006 earned his Bachelor's Degree in Economics at New York University. He is currently Chairman of Makati Foundation for Education, Philippine Stratbase Consultancy, Inc. and is President of Gotuaco, del Rosario Insurance Brokers, Inc., Philippine Telecommunications Investment Corporation. Ambassador del Rosario serves as Commissioner or Director in numerous companies and non-profit organizations including PT Indofood Sukses Makmur Tbk, Philippine Long Distance Telephone Company, Metro Pacific Investments Corporation, Philex Mining Corporation, BusinessWorld Publishing Corporation, Metro Pacific Tollways Corporation, Metro Pacific Tollways Development Corporation, Manila North Tollways Corporation, Asia Insurance (Philippines) Corporation, Philippine Cancer Society, PinoyMe Foundation, Inc., Cultural Center of the Philippines Foundation, Inc., Dasmariñas Village Association, Inc. and is a member of the Board of Trustees or Governors of the International Graduate University, Washington, DC, and Asia Society's International Council. He also headed the development of Pacific Plaza Towers, Metro Pacific Corporation's signature project in Fort Bonifacio's Global City.

In September 2004, Ambassador del Rosario was conferred the Order of Sikatuna, Rank of Datu, by H.E. President Gloria Macapagal-Arroyo for his outstanding efforts in promoting foreign relations for the Philippines. He is a recipient of the EDSA II Presidential Heroes Award in recognition of his work in fostering Philippine democracy and the Philippine Army Award from H.E. President Corazon Aquino for his accomplishments as Chairman of the Makati Foundation for Education. He was elevated to the Xavier Hall of Fame in New York City in 2006. Ambassador del Rosario joined First Pacific's Board in 2003.

### Sutanto Djuhar
Non-executive Director

Age 82, born in Indonesia. Mr. Djuhar, who is the father of Tedy Djuhar, joined First Pacific's Board in 1981 and retired from the Board with effect from 31 May 2010.

### Tedy Djuhar
Non-executive Director

Age 59, born in Indonesia. Mr. Djuhar received a Bachelor of Economics degree from the University of New England in Australia. Mr. Djuhar is Vice President Director of PT Indocement Tunggal Prakarsa Tbk, Director of Pacific Industries and Development Limited, and Director of a number of other Indonesian companies. He joined First Pacific's Board in 1981.

### Ibrahim Risjad
Non-executive Director

Age 77, born in Indonesia. Mr. Risjad serves as a Commissioner of PT Indofood Sukses Makmur Tbk. He joined First Pacific's Board in 1981.

### Benny S. Santoso
Non-executive Director

Age 53, born in Indonesia. Mr. Santoso graduated from Ngee Ann College in Singapore. He serves as a Commissioner of PT Indofood Sukses Makmur Tbk, the President Commissioner of PT Indofood CBP Sukses Makmur Tbk, PT Indosiar Karya Mandiri Tbk and PT Nippon Indosari Corpindo Tbk, a Director of PT Indocement Tunggal Prakarsa Tbk and a member of the Advisory Board of Philippine Long Distance Telephone Company. He joined First Pacific's Board in 2003.

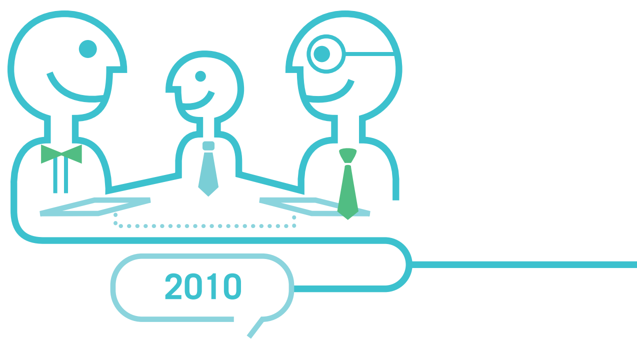
## Advisors

### Soedono Salim
Honorary Chairman and Advisor to the Board

Age 96, born in China. Mr. Salim served as First Pacific's Chairman from 1981 until February 1999, when he assumed his current titles. He serves as Chairman of the Salim Group.

### Sudwikatmono
Advisor to the Board

Age 77, born in Indonesia. Mr. Sudwikatmono served as a Director of First Pacific from 1981 until February 1999, when he assumed the title of an advisor to the Board. Mr. Sudwikatmono passed away in January 2011.



# Senior Executives

### Richard L. Beacher
Executive Vice President
Group Financial Controller

Age 52, born in United Kingdom. Mr. Beacher received a BA (Hons) in Economics and Accounting from University of Newcastle Upon Tyne in the U.K. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Beacher moved to Hong Kong in 1984 with PriceWaterhouse and most recently served in financial positions with Hagemeyer Cosa Lieberman and latterly with Siemens Building Technologies as Global Business Line Controller. He is a Non-executive Director of Forum Energy Plc. Mr. Beacher joined First Pacific in 2006.

### Maisie M.S. Lam
Executive Vice President
Group Human Resources

Age 56, born in Hong Kong. Ms. Lam received a Diploma from the Hong Kong Polytechnic University/ Hong Kong Management Association. She joined First Pacific in 1983.

### Joseph H.P. Ng
Executive Vice President
Group Finance

Age 48, born in Hong Kong. Mr. Ng received an MBA and a Professional Diploma in Accountancy from Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Ng joined First Pacific in 1988 from PriceWaterhouse's audit and business advisory department in Hong Kong. Prior to his appointment as Executive Vice President, Group Finance in May 2002, Mr. Ng was Group Treasurer of the First Pacific Group and served in several senior finance positions within the Group.

### John W. Ryan
Executive Vice President
Group Corporate Communications

Age 45, born in the U.K. Mr. Ryan received a Bachelor of Arts degree from the University of Connecticut and completed a Master of Philosophy course on Slavonic and East European Studies at St. Antony's College, Oxford University. He spent several years as a financial journalist, opening and leading Bloomberg's Moscow bureau for five years in the early 1990s and later joining Dow Jones as Bureau Chief over the period 1998 - 2004 in Moscow and Hong Kong. Mr. Ryan earlier served as Head of Corporate Communications, Asia Pacific for HSBC's wholesale bank. He joined First Pacific in 2010.

### Richard P.C. Chan
Vice President
Group Finance

Age 41, born in Hong Kong. Mr. Chan received a BBA (Hons) degree from Hong Kong Baptist University and an MBA from the Chinese University of Hong Kong. He is a Certified Public Accountant (Practising), a CFA charterholder and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has experience in auditing, accounting, finance and management spanning a diverse range of business activities. Mr. Chan joined First Pacific in 1996 from KPMG.

### Sara S.K. Cheung
Vice President
Group Corporate Communications

Age 47, born in Hong Kong. Ms. Cheung received a BA in Business Economics from the University of California, Los Angeles and an MBA from Southern Illinois University, Carbondale. She is a member of the National Investor Relations Institute and the Hong Kong Investor Relations Association. She joined First Pacific in 1997 from the Public Affairs department of Wharf Limited and Wheelock and Company Limited.

### Nancy L.M. Li
Vice President
Company Secretary

Age 53, born in Hong Kong. Ms. Li received a BA from McMaster University in Canada and a MSc in Corporate Governance and Directorship from Hong Kong Baptist University. She is a Fellow of the Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries & Administrators of Great Britain. Ms. Li joined First Pacific in 1987 from the Hong Kong Polytechnic University's academic secretariat. Prior to that, she worked in the company secretarial department of Coopers & Lybrand. Ms. Li was appointed as First Pacific's Company Secretary in May 2003.

### Peter T.H. Lin
Vice President
Group Tax and Treasury

Age 41, born in Hong Kong. Mr. Lin received an MSc in Management Sciences and BSc in Economics and Statistics from the University of Southampton and Coventry University, respectively. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Tax Institute. Mr. Lin joined First Pacific in 1998 from KPMG where he was a Tax Manager specializing in Corporate Tax.

# Corporate Social Responsibility Report

As the front cover of this report says, First Pacific is engaged in "Creating Long-term Value in Asia." In line with this mission, the Company is committed to improving the quality of life in communities we operate in. The Group's extensive and award-winning community service programs are directed primarily toward education, support for the environment, health, improving livelihoods and emergency response.

First Pacific Head Office focuses on supporting activities to promote education and health. The Company encourages the companies it invests in to be complete corporate citizens in: safeguarding and promoting the local communities they operate in; protecting the Earth and the life on it in all its diversity; conducting business with the highest regard for ethical responsibility; and protecting and enhancing the interests of all their shareholders.

At the Head Office level, **First Pacific** provided support for:

- Hope for Children
- Scholarships at Lingnan University
- The Hong Kong Cancer Fund Stride for a Cure Walkathon, with the participation of First Pacific staff and their families
- The 50th Anniversary of the Hong Kong Management Association

In addition, First Pacific conducts recycling of paper waste and energy conservation where applicable and replaces executive travel with tele- and video-conferencing where possible, saving $CO_2$ emissions in the process.

In 2010 **PLDT** played a key role in several pioneering initiatives that tremendously impacted the lives of all Filipinos and contributing to technological advancement of the country. First among these is the support provided by the PLDT and Smart telecommunications networks for the electronic transmission of ballots in the country's first nationwide automated presidential elections. PLDT also helped fund a voter education campaign to educate voters and poll watchers in the conduct of automated elections.

PLDT also supported a number of initiatives to promote health and the environment. PLDT's Infoteach Outreach Program and the Smart Schools Program of Smart helped upgrade the cyber-skills of high school students and their teachers through internet use and basic IT education among other initiatives. PLDT and Smart also focused on developing partnerships and solutions to help reduce disaster risks, among them, developing a flood forecasting solution and strengthening a quick response program to calamities and natural disasters.


**MPIC** supported a wide variety of corporate social responsibility ("CSR") initiatives under its Triple Bottom Line of People, Planet and Profit. Initiatives included educational outreach and scholarships, a coastal and underwater cleanup campaign and sustainable programs in partnership with the Philippine Business for Social Progress to promote community growth and development.


In Indonesia, **Indofood** focused in 2010 on five areas of corporate responsibility:

- Building human capital
- Outreach to the community
- Strengthening economic values
- Protecting the environment
- Solidarity for humanity

Beasiswa Indofood Sukses Makmur provides scholarships, additional funding and mentoring for students ranging from the elementary level through to university undergraduates, including scholarships to 1,780 children of employees as well as 161 undergraduates.

Community outreach included infrastructure development, such as the construction of drainage systems, road paving, bridge repair and the construction of houses of worship.

Under its program to strengthen economic values, Indofood sponsored entrepreneurship training for the spouses of partnering farmers as well as the provision of tools, barrows and sales tents for development of new small businesses.

In its environmental protection programs, Indofood supported the planting of 8,130 trees ranging from shade to agricultural varieties. It gave aid to river function rehabilitation programs in its plantation areas to improve water quality and reduce the risk of flooding. It also began work on a pilot project to improve waste minimization, management and disposal, particularly waste from packaging.

Indofood's solidarity for humanity programs kick into gear when disaster strikes, providing food to survivors as well as to officials and volunteers responding to natural disasters. It also provides ready-to-eat foods for toddlers, expecting and lactating mothers to ensure that their special needs are met when natural disasters occur.

**Philex**'s CSR programs involved the following:

- Environmental Programs: Include tree planting, reforestation and forest protection; solid waste management; tailings dam maintenance and stability; water quality monitoring and management; and soil movement prevention and management


- Livelihood Programs: Consist of financial support and technical assistance to various local government units, local cooperatives and livelihood organizations involved in agroforestry, greenhouse farming, root crops production, fruits and vegetable farming, live stock raising, fish culture, weaving, meat processing, and other backyard industries
- Health and Sanitation: Maintenance of a hospital in the Padcal Mine, provision of free medical and health services to residents of the host and neighboring communities, medical missions and charities among the local communities surrounding the mine and exploration projects
- Education: Provision of free elementary and secondary education under the Padcal Mine's Educational Assistance Program; scholarship grants for college, technical and vocational courses
- Infrastructure: Include concreting and improvement of farm-to-market roads and bridges, construction and repair of water systems, repair and maintenance of canals and drainages, improvement of irrigation systems, and installation of electric posts; assistance in the construction of school buildings, churches, waiting sheds, and other communal structures

Philex has always been an active volunteer in search and rescue operations during natural disasters. In 2010 it was accorded the Gawad Kalasag Award ("Shield Award") by the President of the Philippines, and the Outstanding Volunteer Award by the Development Council of the Cordillera Region where the Padcal Mine is located.

First Pacific Head Office and its operating companies engage in continuous CSR programs. Senior management are responsible to ensure that their businesses provide regular funding and support for the CSR activities within the communities they serve and operate in. The First Pacific Group of Companies also stands ready to help the communities they work in when natural disasters occur.

# Corporate Governance Report

## Governance Framework

The Company is committed to building and maintaining high standards of corporate governance. The Company has adopted its own Code on Corporate Governance Practices (the First Pacific Code), which incorporates the principles and requirements set out in the Code on Corporate Governance Practices (CG Code) contained in Appendix 14 of the Listing Rules.

First Pacific has applied these principles and complied with all the CG Code mandatory provisions and has also met all of the recommended best practices in the CG Code throughout the current financial year, except for the following:

1. The appointment of Independent Non-executive Directors (INEDs) representing at least one-third of the board, currently only 4 out of a 13-member board are INEDs.
2. The disclosure of details of remuneration payable to members of senior management on an individual and named basis in the annual reports and accounts.
3. The announcement and publication of quarterly financial results within 45 days after the end of the relevant quarter.

First Pacific Board considers that it functions effectively with the current Board. It is actively considering the appointment of at least one additional INED as and when the appropriate candidate is identified. In addition, the Company does not issue quarterly financial results based on our judgment that we should emphasize the quality, rather than the frequency of disclosure of financial information. Furthermore, we are concerned that quarterly reporting might lead investors and management to focus on short-term financial performance, possibly at the expense of longer term financial performance of the Company. The disclosure of details of remuneration payable to members of senior management on an individual and named basis would not provide, in our view, any pertinent information to the readers in assessing the performance of the Company.

### Board of Directors

The Company is led and controlled through the Board of Directors which comprised 13 Directors as at 31 December 2010 and they are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board of Directors has a balance of skill and experience appropriate for the requirements of the Group's businesses. At 31 December 2010, three of the Directors are Executive and ten of the Directors are Non-executive, of whom four are Independent. The Company has received annual confirmations of independence from Mr. Graham L. Pickles, Prof. Edward K.Y. Chen, Sir David Tang and Mr. Jun Tang and considers them to be independent. Non-executive Directors have the same duties of care and skill and fiduciary duties as Executive Directors. The biographies of the Directors are set out on pages 46 to 49.

The Board of Directors usually meets formally at least four times a year to review operational performance and financial plans, monitors the implementation of strategy and any other significant matters that affect the operations of the Group, and approves matters specifically reserved to the Board of Directors for its decision. Dates of the regular board meetings are scheduled in the prior year (subject to amendment) to provide sufficient notice to Directors enabling them to attend. For special board meetings, reasonable notice is given. Directors are consulted as to matters to be included in the agenda for regular board meetings. Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable rules and regulations, are followed. Adequate and appropriate information, in the form of agendas, board papers and related materials, are prepared and provided to the Directors prior to the scheduled dates for the Board meetings in a timely manner. Minutes of the Board meetings and meetings of the Audit Committee, the Remuneration Committee, the Nomination Committee and other Board Committees are kept by the Company Secretary. Minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board meetings and Board Committee meetings have been recorded in sufficient details the matters considered by the Board and the Committees, decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes of the Board meetings and meetings of the Board Committees are sent to all Directors for their comments and records respectively within a reasonable time after the meeting. The Executive Directors, led by the Managing Director and Chief Executive Officer, are responsible for the day-to-day management of the Company's operations. In addition, there are regular meetings with the senior management of subsidiary and associated companies, at which operating strategies and policies are formulated and communicated.

The Company has established a policy enabling all Directors to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board will provide separate independent professional advice to Directors to assist the relevant director or directors to discharge his/their duties to the Company as and when requested or necessary.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation of written resolutions or by a Committee (except an appropriate Board Committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting shall be held. A majority of the Independent Non-executive Directors who, and whose associates, have no material interest in the transaction shall be present at such Board meeting.

Currently, Mr. Anthoni Salim is the Chairman of the Company and Mr. Manuel V. Pangilinan is the Managing Director and Chief Executive Officer of the Company. Accordingly, the roles of the chairman and chief executive officer of the Company are segregated and are not exercised by the same individual. The division of responsibilities between the chairman and the chief executive officer of the Company are set out in the First Pacific Code.

In accordance with the Company's bye-laws and the First Pacific Code, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election at the AGM.

At the Company's 2010 AGM, Mr. Manuel V. Pangilinan, Mr. Edward A. Tortorici and Prof. Edward Chen, who had been longest in office since their appointment, together with Mr. Jun Tang, Sir David Tang, Mr. Tedy Djuhar and Mr. Ibrahim Risjad, retired by rotation but being eligible, offered themselves for re-election. All the Directors were re-elected as Directors of First Pacific, with Mr. Manuel V. Pangilinan, Mr. Edward A. Tortorici, Prof. Edward Chen and Mr. Jun Tang being re-elected for a fixed term of approximately three years, commencing on the date of the 2010 AGM and expiring at the conclusion of the Company's AGM to be held in the third year following the year of his re-election (being 2013). Sir David Tang, Mr. Tedy Djuhar and Mr. Ibrahim Risjad were re-elected as Directors of First Pacific for a fixed term of approximately one year, commencing on the date of the 2010 AGM and expiring at the conclusion of the Company's AGM to be held one year following the year of his re-election (being 2011). Mr. Sutanto Djuhar did not offer himself for re-election and stepped down from the Board at the 2010 AGM due to his other engagements.

As a decentralized organization in which local management have substantial autonomy to run and develop their businesses, the Group views well developed reporting systems and internal controls as essential. The Board of Directors plays a key role in the implementation and monitoring of internal financial controls. Their responsibilities include:

- conducting regular board meetings to focus on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiary and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the compliance with applicable laws and regulations, and also with corporate governance policies;
- monitoring the quality, timeliness, and content of internal and external reporting; and
- monitoring risks and the effectiveness of internal controls.

During 2010, there were four Board meetings and eight teleconferences and those Directors who attended the Board meetings and teleconferences are set out below.

| | Number of Meetings Attended | |
|---|---|---|
| | Board | Teleconference |
| **Chairman** | | |
| Anthoni Salim | 3/4 | 0/8 |
| **Executive Directors** | | |
| Manuel V. Pangilinan, *Managing Director and CEO* | 4/4 | 7/8 |
| Edward A. Tortorici | 4/4 | 5/8 |
| Robert C. Nicholson | 4/4 | 8/8 |
| **Non-executive Directors** | | |
| Ambassador Albert F. del Rosario | 4/4 | 8/8 |
| Benny S. Santoso | 4/4 | 8/8 |
| Napoleon L. Nazareno | 4/4 | 5/8 |
| Sutanto Djuhar# | 0/2 | 0/4 |
| Tedy Djuhar | 4/4 | 8/8 |
| Ibrahim Risjad | 1/4 | 0/8 |
| **Independent Non-executive Directors** | | |
| Graham L. Pickles | 3/4 | 7/8 |
| Prof. Edward K.Y. Chen, *GBS, CBE, JP* | 4/4 | 7/8 |
| Sir David W.C. Tang, *KBE* | 2/4 | 3/8 |
| Jun Tang | 4/4 | 6/8 |

# Sutanto Djuhar retired from the Board of Directors of the Company with effect from 31 May 2010.

## Audit Committee

The Audit Committee is currently composed of three Independent Non-executive Directors, with Mr. Graham L. Pickles, who possesses appropriate professional qualifications and experience in financial matters, acting as chairman of the Audit Committee. This is in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee's written terms of reference, which describe its authority and duties, are regularly reviewed and updated by the Board of Directors. Reporting to the Board of Directors, the Audit Committee reviews matters within the purview of audit, such as financial statements and internal controls, to protect the interests of the Company's shareholders. The Audit Committee also performs an independent review of the interim and annual financial statements.

The Audit Committee meets regularly with the Company's external auditors to discuss the audit process and accounting issues, and reviews the effectiveness of internal controls and risk evaluation. Special meetings are also convened, where appropriate, to review significant financial or internal control issues. During 2010, there were two Audit Committee meetings and those Audit Committee members who attended are set out below.

| | Number of Meetings Attended |
|---|---|
| Graham L. Pickles | 2/2 |
| Prof. Edward K. Y. Chen, *GBS, CBE, JP* | 2/2 |
| Sir David W. C. Tang, *KBE* | 1/2 |

## Remuneration Committee

The Remuneration Committee, which comprises Ambassador Albert F. del Rosario (who also acts as the chairman), Prof. Edward K.Y. Chen and Sir David Tang, has specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee have included the specific duties set out in paragraphs B.1.3 (a) to (f) of the CG Code, with appropriate modifications where necessary.

The Remuneration Committee makes recommendations to the Board of Directors regarding the remuneration of the Executive Directors, senior executives and the fees and emoluments of Non-executive Directors, based on advice from compensation and benefits consultants. No Director or any of his associates is involved in deciding his own remuneration. During 2010, one meeting of the Remuneration Committee was held and those Remuneration Committee members who attended are set out below.

| | **Number of Meeting Attended** |
|---|---|
| Ambassador Albert F. del Rosario | 1/1 |
| Prof. Edward K. Y. Chen, *GBS, CBE, JP* | 1/1 |
| Sir David W. C. Tang, *KBE* | 0/1 |

## Nomination Committee

The Nomination Committee, which comprises Mr. Anthoni Salim (who also acts as the chairman), Ambassador Albert F. del Rosario, Prof. Edward K.Y. Chen, Mr. Graham L. Pickles and Sir David Tang, has specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Nomination Committee have included the specific duties set out in paragraphs A.4.5 (a) to (d) of the CG Code, with appropriate modifications where necessary.

The Nomination Committee performs the following duties:

- reviews the structure, size and composition (including the skills, knowledge and experience) of the Board of Directors on a regular basis and makes recommendations to the Board of Directors regarding any proposed changes;
- establishes recruitment, selection and nomination strategies to attract the right individuals to become Executive, Non-executive or Independent Non-executive Directors; and
- makes recommendations to the Board of Directors on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors.

The selection of individuals to become Executive or Non-executive Directors are based on assessment of their professional qualifications and experience. During 2010, one meeting of the Nomination Committee was held and those Nomination Committee members who attended are set out below.

| | **Number of Meeting Attended** |
|---|---|
| Anthoni Salim | 1/1 |
| Ambassador Albert F. del Rosario | 1/1 |
| Prof. Edward K. Y. Chen, *GBS, CBE, JP* | 1/1 |
| Graham L. Pickles | 1/1 |
| Sir David W. C. Tang, *KBE* | 0/1 |

## Independent Board Committee

Where there are matters involving connected or continuing connected transactions or other transactions, so far as required under the Listing Rules, an Independent Board Committee, comprising wholly the Independent Non-executive Directors, are established with specific written terms of reference which deal clearly with the Independent Board Committee's authority and duties and independent financial advisers will be appointed to provide advices to the Independent Board Committee. When appropriate, the Independent Board Committee will then advise shareholders on how to vote after considering advices (if any) from the independent financial advisers.

During 2010, one meeting of the Independent Board Committee was held and those committee members who attended are set out below.

| | Number of Meeting Attended |
|---|---|
| Prof. Edward K. Y. Chen, *GBS, CBE, JP* | 1/1 |
| Graham L. Pickles | 0/1 |
| Sir David W. C. Tang, *KBE* | 1/1 |
| Jun Tang | 1/1 |

## Directors' Service Contract

No Director has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Model Code for Securities Transactions

Having made specific enquiry, the Company can confirm that all of the Directors have complied with the Company's code of conduct regarding directors' securities transactions, prepared and adopted on terms no less exacting than the required standard set out in the Model Code.

## Financial Reporting

In order to enable the Directors to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects to its shareholders, financial reports with adequate information and explanations are prepared by the Company's management to the Board of Directors on a timely and regular basis.

## Directors' Responsibility for the Financial Statements

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements for each financial year that give a true and fair view of the Company's state of affairs as at the end of the financial year and of its profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;
- state the reasons for any significant departure from the relevant accounting standards; and
- prepare the financial statements on a going concern basis, unless it is not appropriate to presume that the Company will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Directors' Training

The Board was informed of updates of current Listing Rules, accounting practices and disclosure requirements as and when necessary.

## Voting by Poll

The Company's shareholders are adequately informed of the procedures for and their rights to demand voting by poll in shareholders' meetings at which their approvals are sought through disclosure in the Company's circulars. All votings at general meetings are conducted by poll.

At the 2010 AGM, the chairman demanded a poll on all resolutions. The procedures for demanding a poll by the shareholders were incorporated in the AGM circulars sent to the shareholders in the time stipulated. Computershare Hong Kong Investor Services Limited, the Company's Hong Kong Branch Registrar, was engaged as scrutineer to ensure the votes were properly counted.

## Remuneration Policy

Details of Directors' remuneration for the year are set out in Note 35(A) to the consolidated financial statements. The remuneration of senior executives, including Directors, consists of the following:

### Salary and Benefits

Salary reflects an executive's experience, responsibility and market value. Increases are based on effective management of the Company and on increased responsibility. Benefits principally comprise housing allowance, educational support and health care, and are consistent with those provided by comparable companies.

### Bonus and Long-term Incentives

Bonuses are based on the achievement of individual performance targets, and do not necessarily correlate with annual profit movements. Long-term incentives comprise monetary payments and/or share options that link reward to the achievement of pre-determined objectives. The value of the long-term incentive offered to each executive is related to job grade and contribution to the management of the business.

### Fees

It is the Company's policy that it pays no fees to the Company's Executive Directors.

### Pension Contributions

The Company operates defined contribution schemes, in respect of which contributions are determined on the basis of basic salaries and length of service.

### Share Options

Share options are granted to certain Directors and senior executives as part of the long-term incentive arrangements. Details of the Company's share options granted to Directors and senior executives are set out in Note 35(D)(a) to the consolidated financial statements.

## Communications with Shareholders

First Pacific encourages an active and open dialogue with all of its shareholders; private and institutional, large and small. The Board acknowledges that its role is to represent and promote the interests of the Company as a whole and that its members are accountable to shareholders for the performance and activities of the Company. As such First Pacific is always responsive to the views and requests of its shareholders.

The formal channels of communicating with shareholders are the annual and interim reports, press releases, published announcements, shareholders' circulars and the AGM. The annual and interim reports seek to communicate, both to shareholders and the wider investment community, developments in the Company's businesses. In addition, the annual report sets out strategic goals for the coming year and management's performance against predetermined objectives are reported and assessed. All of these initiatives are designed to better inform shareholders and potential investors about the Company's activities and strategic direction.

The AGM is the principal forum for formal dialogue with shareholders, where the Board is available to answer questions about specific resolutions being proposed at the meeting and also about the Group in general. In addition, where appropriate, the Company convenes an SGM to approve transactions in accordance with the Listing Rules and the Company's corporate governance procedures. These provide further opportunities for shareholders to comment and vote on specific transactions.

At the 2010 AGM, a separate resolution was proposed by the chairman in respect of each separate issue, including proposals relating to re-election of the retiring directors and the fixing of remuneration of the non-executive directors of the Company.

In order to promote effective communication, the Company also maintains a website (www.firstpacific.com) which includes past and present information relating to the Group and its businesses.

## Connected and Continuing Connected Transactions

During the year, the Independent Non-executive Directors discussed with the Directors in relation to the following connected and continuing connected transactions and approved the disclosure of those transactions in the form of published announcements and/or circular:

- 23 February 2010 announcement: entering into of new contracts relating to the flour business of the Indofood group between Bogasari Flour Mills, a division of Indofood, and PT Nippon Indosari Corpindo and PT Indotek Konsultan Utama.
- 17 May 2010 and 27 May 2010 announcements: connected transactions and continuing connected transactions arising out of an internal restructuring of certain entities within the Indo Agri group with a view to consolidate the Indo Agri group's joint ventures with the Salim Group in oil palm plantations and sugar plantation under a newly incorporated indirect subsidiary of First Pacific.
- 15 June 2010 announcement: entering into of new contracts between members of the Indofood group, PT Fast Food Indonesia and other associates of Mr. Anthoni Salim relating to new Plantations Business Transactions, new Distribution Business Transactions, new Flour Business Transactions and new Snack Foods Business Transactions, the revised aggregated 2010 Annual Caps for the respective businesses, as well as the revision of the 2010 Annual Caps for the existing Distribution Business Transactions.
- 8 November 2010 announcement: entering into of new framework agreements relating to the Noodles Business Transactions to replace certain existing agreements and to renew their respective Annual Caps for 2011 to 2013; entering into of new framework agreements relating to the Plantations Business Transactions to replace certain existing agreements and to renew their respective Annual Caps for 2011 to 2013; entering into of new agreements relating to the Insurance Business Transactions upon expiry and to renew their respective Annual Caps for 2011 to 2013; entering into of new agreements relating to the Packaging Business Transactions upon expiry and to renew their respective Annual Caps for 2011 to 2013; entering into of new agreements relating to the Distribution Business Transactions upon expiry and to renew their respective Annual Caps for 2011 to 2013 and the entering into of new agreements relating to the Flour Business Transactions upon expiry and to renew their respective Annual Caps for 2011 to 2013; as well as the appointment of independent board committee and independent financial adviser.
- 18 November 2010 circular: continuing connected transactions relating to the Noodles Business Transactions and Plantations Business Transactions to be entered into and become effective immediately following expiry of the existing Noodles Business Transactions and Plantations Business Transactions; and the setting of new Annual Caps for 2011, 2012 and 2013 in respect of the respective Noodles Business Transactions and Plantations Business Transactions.

I. Details of those continuing connected transactions relating to the Indofood Group, which are required to be specified by Rule 14A.45 of the Listing Rules are set out below:

## A. Transactions relating to the Noodles Business of the Indofood Group

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 |
|---|---|---|---|---|---|
| **Name of entity of the group** | **Name of connected party and relationship between the parties** | **Nature of agreement/arrangement** | **From** | **To** | **(US$ millions)** |
| PT Indofood CBP Sukses Makmur Tbk (ICBP) - Food Ingredient Division (FID) - Packaging Division (PGD) | De United Food Industries Ltd. (Dufil), an associate of Mr. Anthoni Salim | Sale and supply of food ingredients and noodles seasonings from ICBP-FID to Dufil for the production of instant noodles | 31 December 2009 | 31 December 2010 | 16.2 |
| | | Sale and supply of packaging from ICBP-PGD to Dufil for the production of instant noodles | 31 December 2009 | 31 December 2010 | – |
| PT Indofood Sukses Makmur Tbk (ISM) | Dufil, an associate of Mr. Anthoni Salim | Trademark licensing for the exclusive use by Dufil of the "Indomie" trademark owned by ISM in the Nigerian market and provision of related technical services in connection with Dufil's instant noodle manufacturing operations in Nigeria | 1 November 2008 | 31 December 2010 | 4.2 |
| ICBP-FID | Pinehill Arabian Food Ltd. (Pinehill), an associate of Mr. Anthoni Salim | Sale and supply of food ingredients and noodle seasonings from ICBP-FID to Pinehill for the production of instant noodles | 31 December 2009 | 31 December 2010 | 38.3 |
| ICBP-PGD | Pinehill, an associate of Mr. Anthoni Salim | Sale and supply of packaging from ICBP-PGD to Pinehill for the production of instant noodles | 31 December 2009 | 31 December 2010 | 10.3 |
| ISM | Pinehill, an associate of Mr. Anthoni Salim | Trademark licensing for the exclusive use by Pinehill of the "Indomie", "Supermi" and "Pop Mei" trademarks owned by ISM in certain countries in the Middle East | 1 January 2006 | 31 December 2010 (Automatic extension upon expiry) | 1.6 |
| ICBP | Pinehill, an associate of Mr. Anthoni Salim | ICBP provides technical assistance services to Pinehill in connection with the latter's instant noodle manufacturing operations in certain countries in the Middle East | 1 January 2010 | 31 December 2010 | 3.3 |
| ICBP-FID | Salim Wazaran Brinjikji Co. (SAWAB), an associate of Mr. Anthoni Salim | Sale and supply of food ingredients and noodle seasonings from ICBP-FID to SAWAB for the production of instant noodles | 1 October 2009 | 31 December 2010 | 0.1 |
| ICBP-PGD | SAWAB, an associate of Mr. Anthoni Salim | Sale and supply of packaging from ICBP-PGD to SAWAB for the production of instant noodles | 31 December 2009 | 31 December 2010 | 1.2 |
| ISM | SAWAB, an associate of Mr. Anthoni Salim | Trademark licensing for the non-exclusive use by SAWAB of the "Indomie" trademark owned by ISM in the Syrian Arab Republic market | 1 July 2008 | 31 December 2010 | 0.5 |
| ISM | SAWAB, an associate of Mr. Anthoni Salim | Technical services agreement whereby ISM provides technical assistance to SAWAB in connection with the latter's instant noodle manufacturing operations in the Syrian Arab Republic market | 1 July 2008 | 31 December 2010 | 0.5 |

| Parties to the agreement/arrangement: Name of entity of the group | Parties to the agreement/arrangement: Name of connected party and relationship between the parties | Nature of agreement/arrangement | Period covered by the agreement/arrangement: From | Period covered by the agreement/arrangement: To | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| ICBP-FID | Sudan Joint Venture | Sale and supply of food ingredients and noodle seasonings from ICBP-FID to Sudan Joint Venture for the production of instant noodles | – | – | – |
| ICBP-PGD | Sudan Joint Venture | Sale and supply of packaging from ICBP-PGD to Sudan Joint Venture for the production of instant noodles | – | – | – |
| ISM | Sudan Joint Venture | Trademark licensing for the non-exclusive use by Sudan Joint Venture of the "Indomie" trademark owned by ISM in the Sudan market | – | – | – |
| ISM | Sudan Joint Venture | Technical services agreement whereby ISM provides technical assistance to Sudan Joint Venture in connection with the latter's instant noodle manufacturing operations in the Sudan market | – | – | – |
| ICBP-FID | Salim Wazaran Abu Elata Co. (SAWATA), an associate of Mr. Anthoni Salim | Sale and supply of food ingredients and noodle seasonings from ICBP-FID to SAWATA for the production of instant noodles | 31 December 2009 | 31 December 2010 | – |
| ICBP-PGD | SAWATA, an associate of Mr. Anthoni Salim | Sale and supply of packaging from ICBP-PGD to SAWATA for the production of instant noodles | 31 December 2009 | 31 December 2010 | 0.7 |
| ISM | SAWATA, an associate of Mr. Anthoni Salim | Trademark licensing for the non-exclusive use by SAWATA of the "Indomie" trademark owned by ISM in the Egypt market | 16 April 2009 | 31 December 2010 | 0.3 |
| ISM | SAWATA, an associate of Mr. Anthoni Salim | Technical services agreement whereby ISM provides technical assistance to SAWATA in connection with the latter's instant noodle manufacturing operations in the Egypt market | 16 April 2009 | 31 December 2010 | 0.3 |
| ICBP-FID | Salim Wazaran Hilaby Co. (SAWAHI), an associate of Mr. Anthoni Salim | Sale and supply of food ingredients and noodle seasonings from ICBP-FID to SAWAHI for the production of instant noodles | 31 December 2009 | 31 December 2010 | – |
| ICBP-PGD | SAWAHI, an associate of Mr. Anthoni Salim | Sale and supply of packaging from ICBP-PGD to SAWAHI for the production of instant noodles | 31 December 2009 | 31 December 2010 | – |
| ISM | SAWAHI, an associate of Mr. Anthoni Salim | Trademark licensing for the non-exclusive use by SAWAHI of the "Indomie" trademark owned by ISM in the Yemen market | – | – | – |
| ISM | SAWAHI, an associate of Mr. Anthoni Salim | Technical services agreement whereby ISM provides technical assistance to SAWAHI in connection with the latter's instant noodle manufacturing operations in the Yemen market | – | – | – |
| **Aggregated transactions amount** | | | | | **77.5** |

## B. Transactions relating to the Plantations Business of the Indofood Group

| Parties to the agreement/arrangement: Name of entity of the group | Parties to the agreement/arrangement: Name of connected party and relationship between the parties | Nature of agreement/arrangement | Period covered by the agreement/arrangement: From | Period covered by the agreement/arrangement: To | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| PT Salim Ivomas Pratama (SIMP) | PT Adithya Suramitra (ADS), an associate of Mr. Anthoni Salim | SIMP entered into a 20-year lease contract with ADS for the use of land property which is the factory site of SIMP | 1 June 1996 | 31 May 2016 | 0.1 |
| SIMP and its subsidiaries | PT Sarana Tempa Perkasa (STP), an associate of Mr. Anthoni Salim | STP provides pumping services to SIMP and its subsidiaries to load crude palm oil (CPO) and its derivative products to the shipping vessels | 2 January 2008<br>30 April 2008 | 31 December 2010<br>31 December 2010 | 0.5 |
| PT Gunta Samba (GS) | PT Rimba Mutiara Kusuma (RMK), an associate of Mr. Anthoni Salim | GS purchases spare parts from RMK | 1 July 2008 | 31 December 2010 | – |
| GS | RMK, an associate of Mr. Anthoni Salim | GS leases heavy equipment from RMK | 1 July 2008 | 31 December 2010 | 0.1 |
| GS | RMK, an associate of Mr. Anthoni Salim | GS rents office space from RMK | 1 July 2008 | 31 December 2010 | 0.1 |
| PT Multi Pacific International (MPI) | RMK, an associate of Mr. Anthoni Salim | MPI leases heavy equipment from RMK | 1 July 2008 | 31 December 2010 | 0.1 |
| PT Sarana Inti Pratama (SAIN) | PT Mentari Subur Abadi (MSA), an associate of Mr. Anthoni Salim | SAIN sells seedlings to MSA to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| SAIN | PT Swadaya Bhakti Negaramas (SBN), an associate of Mr. Anthoni Salim | SAIN sells seedlings to SBN to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| SAIN | PT Agrosubur Permai (ASP), a 99.51% owned subsidiary of MSA | SAIN sells seedlings to ASP to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| SAIN | GS, a 99.99% owned subsidiary of PT Mega Cipta Perdana ("MCP") | SAIN sells seedlings to GS to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| SAIN | MPI, a 99.97% owned subsidiary of MCP | SAIN sells seedlings to MPI to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| SAIN | MSA, an associate of Mr. Anthoni Salim | SAIN provides management research services to MSA in connection with its operations | 1 July 2008 | 31 December 2010 | 0.1 |
| SAIN | SBN, an associate of Mr. Anthoni Salim | SAIN provides management research services to SBN in connection with its operations | 1 July 2008 | 31 December 2010 | 0.1 |
| SAIN | ASP, a 99.51% owned subsidiary of MSA | SAIN provides management research services to ASP in connection with its operations | 1 July 2008 | 31 December 2010 | – |

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| Name of entity of the group | Name of connected party and relationship between the parties | Nature of agreement/arrangement | From | To | |
| SIMP | MSA, an associate of Mr. Anthoni Salim and ASP, a 99.51% owned subsidiary of MSA | SIMP extends financial assistance to MSA and ASP (maximum 60% portion from total shareholders' loan and corporate guarantee) | 1 July 2008 | 31 December 2010 | 34.6 |
| SIMP | SBN, an associate of Mr. Anthoni Salim | SIMP extends financial assistance to SBN (maximum 60% portion from total shareholders' loan and corporate guarantee) | 1 July 2008 | 31 December 2010 | 10.2 |
| SIMP | MCP, MPI, a 99.97% owned subsidiary of MCP and GS, a 99.99% owned subsidiary of MCP | SIMP extends financial assistance to MCP, MPI and GS (maximum 60% portion from total shareholders' loan and corporate guarantee) | 1 July 2008 | 31 December 2010 | 47.7 |
| GS | MPI, a 99.97% owned subsidiary of MCP | GS sells agronomy materials to MPI | 1 July 2008 | 31 December 2010 | – |
| MPI | GS, a 99.99% owned subsidiary of MCP | MPI sells agronomy materials to GS | 1 July 2008 | 31 December 2010 | – |
| GS | RMK, an associate of Mr. Anthoni Salim | GS buys heavy equipment from RMK | 1 July 2008 | 31 December 2010 | – |
| GS | RMK, an associate of Mr. Anthoni Salim | GS buys building materials from RMK | 1 July 2008 | 31 December 2010 | – |
| MPI | RMK, an associate of Mr. Anthoni Salim | MPI buys building materials from RMK | 1 July 2008 | 31 December 2010 | – |
| MPI | RMK, an associate of Mr. Anthoni Salim | MPI buys spare parts from RMK | 1 July 2008 | 31 December 2010 | – |
| PT Perusahaan Perkebunan London Sumatra Indonesia Tbk (LSIP) | MSA, an associate of Mr. Anthoni Salim | LSIP sells seedlings to MSA for its operations and LSIP buys fresh fruit bunches (FFB) from MSA for its operations | 1 September 2009 | 31 December 2010 | 0.6 |
| LSIP | SBN, an associate of Mr. Anthoni Salim | LSIP sells seedlings to SBN to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| LSIP | ASP, a 99.51% owned subsidiary of MSA | LSIP sells seedlings to ASP to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| LSIP | GS, a 99.99% owned subsidiary of MCP | LSIP sells seedlings to GS to be used for its operations | 1 July 2008 | 31 December 2010 | – |
| LSIP | MPI, a 99.97% owned subsidiary of MCP | LSIP sells seedlings to MPI to be used for its operations | 1 July 2008 | 31 December 2010 | 0.7 |
| SIMP | PT Laju Perdana Indah (LPI), an associate of Mr. Anthoni Salim | SIMP extends financial assistance to LPI (maximum 60% portion from total shareholders' loan and corporate guarantee) | 1 August 2008 | 31 December 2010 | 114.7 |
| LPI | PT Indotek Konsultan Utama (IKU), 100% owned subsidiary of Mr. Anthoni Salim | IKU provides consultancy services to LPI on specific technical aspect in respect of project development | 1 July 2008 | 31 December 2010 | 0.0 |

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 |
|---|---|---|---|---|---|
| Name of entity of the group | Name of connected party and relationship between the parties | Nature of agreement/arrangement | From | To | (US$ millions) |
| SIMP | PT Fast Food Indonesia, Tbk (FFI), an associate of Mr. Anthoni Salim | SIMP sells deep frying oil to FFI | 15 June 2010 | 31 December 2010 | 1.9 |
| GS | RMK, an associate of Mr. Anthoni Salim | GS uses RMK services (truck/tug boat/barge) to transport FFB and GS rents trucks from RMK | 15 June 2010 | 31 December 2010 | 0.0 |
| MPI | RMK, an associate of Mr. Anthoni Salim | MPI uses RMK services (truck/tug boat/barge) to transport FFB and MPI rents trucks from RMK | 15 June 2010 | 31 December 2010 | – |
| SIMP and its subsidiaries | RMK, an associate of Mr. Anthoni Salim | SIMP and its subsidiaries uses RMK services (truck/tug boat/barge) to transport FFB and SIMP rents trucks from RMK | 15 June 2010 | 31 December 2010 | – |
| MPI | RMK, an associate of Mr. Anthoni Salim | MPI rents some property from RMK | 15 June 2010 | 31 December 2010 | – |
| SAIN | GS, a 99.99% owned subsidiary of MCP | SAIN provides operation services to GS in connection with its operations | 15 June 2010 | 31 December 2010 | 0.0 |
| SAIN | MPI, a 99.97% owned subsidiary of MCP | SAIN provides management research services to MPI in connection with its operations | 15 June 2010 | 31 December 2010 | 0.0 |
| SIMP | MSA, an associate of Mr. Anthoni Salim | MSA rents office space from SIMP | 15 June 2010 | 31 December 2010 | 0.0 |
| SIMP and its subsidiaries | GS, a 99.99% owned subsidiary of MCP | SIMP and its subsidiaries sells CPO to GS | 15 June 2010 | 31 December 2010 | 1.6 |
| SIMP and its subsidiaries | MSA, an associate of Mr. Anthoni Salim | SIMP and its subsidiaries acquires FFB from MSA | 15 June 2010 | 31 December 2010 | – |
| **Aggregated transactions amount** | | | | | **213.1** |

## C. Transactions relating to the Other Packaging Business of the Indofood Group

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 |
|---|---|---|---|---|---|
| Name of entity of the group | Name of connected party and relationship between the parties | Nature of agreement/arrangement | From | To | (US$ millions) |
| PT Surya Rengo Containers (SRC) | PT Pepsi Cola Indobeverages (PCIB), an associate of Mr. Anthoni Salim | SRC sells carton packaging to PCIB for its beverage products | 23 May 2008 | 31 December 2010 (Automatic extension for three years upon expiration) | 1.6 |
| ICBP | PCIB, an associate of Mr. Anthoni Salim | ICBP sells lid cups to PCIB for its beverages products | 31 December 2009 | 31 December 2010 | – |
| **Aggregated transactions amount** | | | | | **1.6** |

## D. Transactions relating to the Distribution Business of the Indofood Group

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| Name of entity of the group | Name of connected party and relationship between the parties | Nature of agreement/arrangement | From | To | |
| PT Indomarco Adi Prima (IAP) | PT Lion Superindo (LS), an associate of Mr. Anthoni Salim | IAP distributes various consumer products to LS | 23 May 2008 | 31 December 2010 | 9.1 |
| IAP | PT Buana Distrindo (BD), an associate of Mr. Anthoni Salim | As a sub-distributor of BD, IAP purchases Pepsi and other beverage products for sale to its trade outlets in Indonesia | 23 May 2008 | 31 December 2010 | 23.7 |
| IAP | FFI, an associate of Mr. Anthoni Salim | IAP sells sauces, seasonings and dairy products to FFI | 15 June 2010 | 31 December 2010 | 0.7 |
| PT Putri Daya Usahatama (PDU) | LS, an associate of Mr. Anthoni Salim | PDU distributes various consumer products to LS | 26 May 2008 | 31 December 2010 (Automatic extension for three years upon expiry) | 0.9 |
| **Aggregated transactions amount** | | | | | **34.4** |

## E. Transactions relating to the Snack Food Business of the Indofood Group

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| Name of entity of the group | Name of connected party and relationship between the parties | Nature of agreement/arrangement | From | To | |
| ICBP-FID | SAWAB, an associate of Mr. Anthoni Salim | ICBP-FID supplies food ingredients and seasonings to SAWAB for its snack products | – | – | – |
| ICBP-PGD | SAWAB, an associate of Mr. Anthoni Salim | ICBP-PGD supplies packaging to SAWAB for its snack products | 31 December 2009 | 31 December 2010 | – |
| ISM | SAWAB, an associate of Mr. Anthoni Salim | ISM provides technical assistance services to SAWAB in connection with its snack food manufacturing operations in Syrian Arab Republic | – | – | – |
| ICBP – Biscuit Division (BID) | FFI, an associate of Mr. Anthoni Salim | ICBP-BID sells biscuit crumb and syrup to FFI | 15 June 2010 | 31 December 2010 | 0.0 |
| **Aggregated transactions amount** | | | | | **0.0** |

## F. Transactions relating to the Insurance Policies of the Indofood Group

| Parties to the agreement/arrangement: Name of entity of the group | Parties to the agreement/arrangement: Name of connected party and relationship between the parties | Nature of agreement/arrangement | Period covered by the agreement/arrangement: From | Period covered by the agreement/arrangement: To | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| ISM and subsidiaries | PT Asuransi Central Asia (ACA), an associate of Mr. Anthoni Salim | ISM and subsidiaries take out insurance policies with ACA | Property all risks and earthquake: 14 March 2008 | 31 December 2010 | 3.2 |
| | | | Vehicles: 14 March 2008 | 31 December 2010 | |
| | | | Marine cargo: 14 January 2008 | 31 December 2010 | |
| ISM | PT Central Asia Raya (CAR), an associate of Mr. Anthoni Salim | ISM takes out insurance policies with CAR and CAR provides services for medical claims of ISM | 8 April 2008 | 31 December 2010 | 2.1 |
| ISM and subsidiaries | PT Indosurance Broker Utama (IBU), an associate of Mr. Anthoni Salim | ISM and subsidiaries take out insurance policies with IBU | 9 June 2008 | 31 December 2010 | 0.3 |
| **Aggregated transactions amount** | | | | | **5.6** |

## G. Transactions relating to the Flour Business of the Indofood Group

| Parties to the agreement/arrangement: Name of entity of the group | Parties to the agreement/arrangement: Name of connected party and relationship between the parties | Nature of agreement/arrangement | Period covered by the agreement/arrangement: From | Period covered by the agreement/arrangement: To | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| PT Indofood Sukses Makmur Tbk – Bogasari Flour Mill Division (Bogasari) | PT Nippon Indosari Corpindo Tbk (NIC) | Bogasari sells flour to NIC | 23 February 2010 | 31 December 2012 | 11.2 |
| Bogasari | FFI, an associate of Mr. Anthoni Salim | Bogasari sells spaghetti to FFI | 22 June 2010 | 31 December 2010 | 0.3 |
| Bogasari | IKU, 100% owned subsidiary of Mr. Anthoni Salim | IKU provides consulting/technical services for project development to Bogasari | 1 January 2010 | 31 December 2010 | 0.0 |
| **Aggregated transactions amount** | | | | | **11.5** |

II. Details of those continuing connected transactions entered into between Maynilad Water Services Inc. (Maynilad) and DMCI Holdings Inc. (DMCI), which are required to be specified by Rule 14A.45 of the Listing Rules are set out below:

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 (US$ millions) |
|---|---|---|---|---|---|
| Name of entity of the group | Name of connected party and relationship between the parties | Nature of agreement/arrangement | From | To | |
| Maynilad | D.M. Consunji, Inc. (DMCIC), a subsidiary of DMCI | DMCIC provides construction services involving supply of materials for the completion of Supply and Installation of mechanical works for the proposed new Pagcor Pumping Station and Reservoir, and other related works | 11 January 2010 | 10 February 2011 | 2.3 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of supply and discharge of pipelines for new Pasay pump station package 2 along Bradco and Macapagal Avenue from Roxas Boulevard to Macaraeg St., Paranaque City | 5 April 2010 | 12 December 2010 | 3.2 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of supply and discharge of pipelines for new Pasay pump station package 3 along Boardwalk from new Pasay pump station to Roxas Boulevard, Paranaque City | 5 April 2010 | 15 February 2011 | 8.3 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed 700mm primary watermains for HA36 under 2nd 50MLD project of Muntinlupa Business Area – package 3 along Sucat Road, Muntinlupa (Package 3) | 2 August 2010 | 28 February 2011 | 2.3 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed 1400mm primary lines with Bridge Crossing including secondary and tertiary lines along Alabang-Zapote Road Package 12 | 14 October 2010 | 11 April 2011 | 5.1 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of upgrading of Grant communcal Septic Tank, Grants St. Bahay Toro, Quezon City | 30 December 2010 | 27 June 2011 | 0.8 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed 1400mm watermain along Alabang-Zapote Road (Package 8) | 14 October 2010 | 11 April 2011 | 3.3 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed 1400mm primary line along PNR, Muntinlupa City | 18 January 2010 | 8 October 2010 | 3.6 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed valve replacement at various locations | 25 January 2010 | 23 June 2010 | 1.8 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed relocation of existing 900mm steel pipe affected by Skyway Stage 2 project | 1 March 2010 | 14 April 2010 | 0.4 |

| Parties to the agreement/arrangement | | | Period covered by the agreement/arrangement | | Transaction amount for the year ended 31 December 2010 |
|---|---|---|---|---|---|
| Name of entity of the group | Name of connected party and relationship between the parties | Nature of agreement/arrangement | From | To | (US$ millions) |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the removal of accumulated vegetation growth and existing island formed and desludging, drying and hauling of sludge at Lagoon No.1 and LP-1 | 11 May 2010 | 7 September 2010 | 0.8 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed relocation of existing 900mm steel pipe and 200mm PVC along SLEX near Hill Borough, Sucat Road, Paranaque City | 27 May 2010 | 25 July 2010 | 0.4 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed fencing removal/backfiling of unsuitable and suitable materials for the proposed 200mld Putatan Water Treatment Plant | 9 November 2010 | 7 January 2011 | 0.6 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed valve replacement/exploratory project – Batch 5 | 5 November 2010 | 4 March 2011 | 1.8 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of removal of accumulated vegetation growth and existing island formed and dredging, drying and hauling of sludge at Lagoon No. 2 of LP-1 | 16 December 2010 | 28 February 2011 | 0.2 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed valve replacement at various locations (Batch 4) | 9 August 2010 | 6 December 2010 | 0.8 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed replacement of existing 400mm ACP along EDSA | 8 November 2010 | 7 March 2011 | 0.3 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of the proposed replacement of existing 400mm ACP | 8 November 2010 | 5 February 2011 | 0.4 |
| Maynilad | DMCIC, a subsidiary of DMCI | DMCIC provides construction services in respect of all-works/leak repair for primary watermains | 16 July 2010 | 31 December 2010 | 0.1 |
| Maynilad | DMCI Project Developers, Inc. ("DMCIPD"), a subsidiary of DMCI | DMCIPD leases to Maynilad an office space, together with twelve parking units, located at 1321 Apolinario Street, Barangay Bangal, Makati City | 1 February 2009 | 31 January 2012 | 0.1 |
| **Aggregated transactions amount** | | | | | **36.6** |

In respect of the financial year ended 31 December 2010, each of the continuing connected transactions has been subject to annual review by the Independent Non-executive Directors of the Company pursuant to Rule 14A.37 of the Listing Rules and confirmation of the auditors of the Company pursuant to Rule 14A.38 of the Listing Rules.

The Independent Non-executive Directors of the Company have concluded that each continuing connected transaction has been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, in those instances where there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Indofood group or to Maynilad than terms available to or from (as appropriate) independent third parties;
- in accordance with the relevant agreement governing them, or the relevant written memorandum recording their terms; and
- on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to SEHK.

## Risk Management and Internal Control

The Board is responsible for maintaining an adequate system of internal controls in the Group and reviewing its effectiveness through the Audit Committee.

In addition, during the year ended 31 December 2010, the Audit Committee reviewed and advised that:

- The internal controls and accounting systems of the Group function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication and compliant with all relevant laws and regulations.
- There are processes in place for identifying, evaluating and managing the material business risks faced by the Group. Such processes are incorporated in all the Group's businesses.

## Liquidity and Financial Resources

### Net Debt and Gearing

*(A) Head Office Net Debt*

The increase in net debt is mainly attributable to payments for subscription of MPIC's convertible bonds and investment in additional interests in Philex. The Head Office's borrowings at 31 December 2010 comprise bonds of US$689.5 million (with an aggregate face value of US$700.0 million) which are due for redemption in July 2017 and September 2020, bank loans of US$289.7 million (with an aggregated face value of US$291.3 million) which are due for repayment between November 2012 and November 2013 and other loans of US$124.7 million (with a total face value of US$124.7 million) of which US$123.6 million is repayable during January 2011 to January 2013.

**Changes in Head Office Net Debt**

| US$ millions | Borrowings | Cash and cash equivalents | Net debt |
|---|---|---|---|
| At 1 January 2010 | 921.4 | (269.7) | 651.7 |
| Movement | 182.5 | (17.3) | 165.2 |
| **At 31 December 2010** | **1,103.9** | **(287.0)** | **816.9** |

**Head Office Cash Flow**

| US$ millions | **2010** | 2009 |
|---|---|---|
| Dividend income | **277.5** | 221.6 |
| Corporate overhead, net interest expense and taxes | **(44.8)** | (37.7) |
| Net cash inflow from operating activities | **232.7** | 183.9 |
| Net investments | **(83.9)** | (299.1) |
| Financing activities | | |
| - Proceeds from the issue of secured bonds, net | **689.2** | – |
| - Proceeds from the issue of shares upon the exercise of share options | **18.9** | 0.8 |
| - Net (loan repayments)/borrowings | **(595.0)** | 89.1 |
| - (Advances to)/repayment from subsidiary companies, net | **(143.5)** | 6.0 |
| - Dividends paid | **(79.0)** | (41.2) |
| - Repurchase of shares | **(22.1)** | – |
| - Proceeds from rights issue, net | **–** | 277.1 |
| **Increase in Cash and Cash Equivalents** | **17.3** | 216.6 |

*(B)* *Group Net Debt and Gearing*

An analysis of net debt and gearing for principal consolidated and associated companies follows.

**Consolidated**

| US$ millions | **Net debt[i] 2010** | **Total equity 2010** | **Gearing (times) 2010** | Net debt[i] 2009 | Total equity 2009 | Gearing (times) 2009 |
|---|---|---|---|---|---|---|
| Head Office | **816.9** | **1,787.9** | **0.46x** | 651.7 | 1,808.3 | 0.36x |
| MPIC | **597.8** | **1,465.3** | **0.41x** | 706.1 | 1,303.6 | 0.54x |
| Indofood | **432.3** | **3,247.9** | **0.13x** | 1,361.7 | 2,022.6 | 0.67x |
| Group adjustments[ii] | **–** | **(889.0)** | **–** | – | (1,095.4) | – |
| **Total** | **1,847.0** | **5,612.1** | **0.33x** | 2,719.5 | 4,039.1 | 0.67x |

**Associated**

| US$ millions | **Net debt/(cash) 2010** | **Total equity 2010** | **Gearing (times) 2010** | Net debt/(cash) 2009 | Total equity 2009 | Gearing (times) 2009 |
|---|---|---|---|---|---|---|
| PLDT | **1,209.2** | **2,221.4** | **0.54x** | 1,309.0 | 2,145.6 | 0.61x |
| Philex | **(82.8)** | **473.5** | **–** | (62.4) | 386.4 | – |

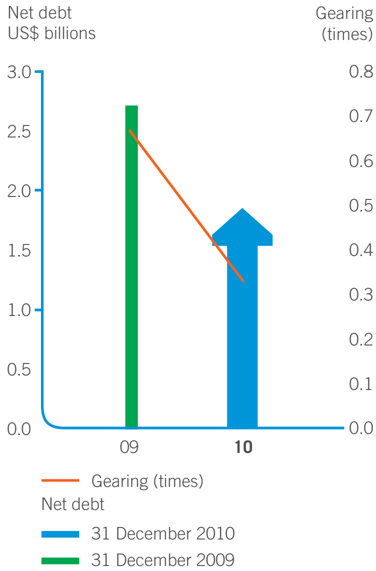
(i) Includes restricted cash and pledged deposits

(ii) Group adjustments mainly represents elimination of goodwill arising from acquisitions prior to 1 January 2001 against the Group's retained earnings and other standard consolidation adjustments to present the Group as a single economic entity.

Head Office's gearing increased principally because of its subscription of MPIC's convertible bonds and investment in additional interests in Philex. MPIC's gearing decreased principally due to a lower net debt level and a growth of its equity as a result of its profit recorded for the year. Indofood's gearing decreased principally because of the net proceeds from the spin-off of its consumer branded products businesses, ICBP, and a growth of its equity mainly as a result of its profit recorded for the year. PLDT's gearing decreased as strong free cash flows were used to reduce debts. Philex's net cash increased principally because of strong free cash flows and profit enhanced total equity.

The Group's gearing improved to 0.33 times principally because of a lower net debt level and a growth of the Group's total equity principally as a result of the spin-off of ICBP as well as the profit recorded for the year.

**Net Debt and Gearing**



## Maturity Profile

The maturity profile of debt of consolidated and associated companies follows.

**Consolidated**

| | Carrying amounts | | Nominal values | |
|---|---|---|---|---|
| US$ millions | **2010** | 2009 | **2010** | 2009 |
| Within one year | **645.4** | 829.7 | **646.5** | 830.4 |
| One to two years | **650.6** | 764.5 | **657.8** | 775.5 |
| Two to five years | **1,062.7** | 1,408.2 | **1,064.5** | 1,412.9 |
| Over five years | **1,080.5** | 682.9 | **1,099.0** | 692.9 |
| **Total** | **3,439.2** | 3,685.3 | **3,467.8** | 3,711.7 |

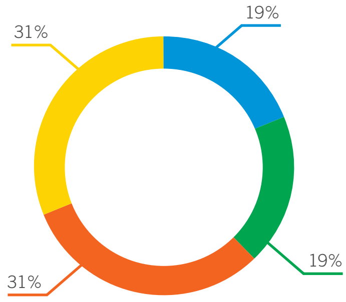
The change in the Group's debt maturity profile from 31 December 2009 to 31 December 2010 principally reflects (a) Head Office's issuance of US$300 million and US$400 million of bonds due in July 2017 and September 2020, respectively (through the Company's wholly-owned subsidiary companies, FPMH Finance Limited and FPT Finance Limited, respectively), of which approximately US$600 million has been used for the early repayment of Head Office's bank borrowings; and a vendor financing of Pesos 5.4 billion (US$123.6 million) arranged for the purchase of a 5.9% interest in Philex, (b) MPIC's early repayment of Pesos 11.2 billion (US$255.6 million) borrowings and (c) Indofood's repayment of borrowings principally by using the proceeds from the spin-off of ICBP.

**Associated**

| | PLDT | | | | Philex | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amounts | | Nominal values | | Carrying amounts | | Nominal values | |
| US$ millions | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Within one year | **314.8** | 275.3 | **318.6** | 278.5 | **3.4** | – | **3.4** | – |
| One to two years | **408.9** | 232.3 | **442.7** | 265.1 | **–** | – | **–** | – |
| Two to five years | **894.2** | 1,079.4 | **923.2** | 1,125.6 | **–** | – | **–** | – |
| Over five years | **427.9** | 551.4 | **428.5** | 552.7 | **–** | – | **–** | – |
| **Total** | **2,045.8** | 2,138.4 | **2,113.0** | 2,221.9 | **3.4** | – | **3.4** | – |

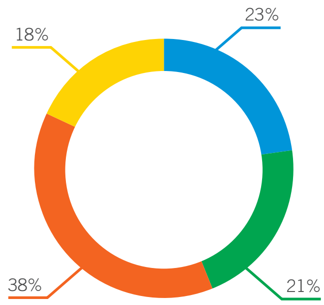
The change in PLDT's debt maturity profile from 31 December 2009 to 31 December 2010 principally reflects loan repayments and new borrowings arranged to finance capital expenditure and/or refinance its loan obligations which were utilized for service improvements and expansion programs.

**Maturity Profile of Consolidated Debt 2010**




| | US$ millions |
|---|---|
| Within one year | 645.4 |
| One to two years | 650.6 |
| Two to five years | 1,062.7 |
| Over five years | 1,080.5 |
| **Total** | **3,439.2** |

**Maturity Profile of Consolidated Debt 2009**




| | US$ millions |
|---|---|
| Within one year | 829.7 |
| One to two years | 764.5 |
| Two to five years | 1,408.2 |
| Over five years | 682.9 |
| **Total** | **3,685.3** |

# Financial Risk Management

## Foreign Currency Risk

*(A) Company Risk*

As the Head Office debts are currently denominated in U.S. dollars, foreign currency risk relates mainly to the receipt of cash dividends and to the translation of non-U.S. dollar denominated investments in subsidiary and associated companies.

The Company actively reviews the potential benefits of hedging based on forecast dividend flows and enters into hedging arrangements (including the use of forward exchange contracts) for managing its foreign currency exposure in respect of dividend income and payments in foreign currency on a transactional basis. In December 2009, a wholly-owned subsidiary company of the Company entered into a two-year Peso/U.S. dollar forward exchange contract, with several interim settlements, to hedge a portion of the peso-denominated dividend income from PLDT. However, the Company does not actively seek to hedge risks arising on the translation of foreign currency denominated investments due to (i) the non-cash nature of such exposure until the values of the investments are realized and (ii) the high costs associated with such hedging. Accordingly, the Company is exposed to the impact of foreign currency fluctuations on the translated U.S. dollar value of its foreign currency denominated investments.

With the exception of the Head Office, the principal components of the Group's NAV relate to investments denominated in the peso and rupiah. Accordingly, any change in these currencies, against their respective 31 December 2010 exchange rates, would have an effect on the Group's NAV in U.S. dollar terms.

The following table illustrates the estimated effect on the Group's adjusted NAV for a one per cent change of the peso and rupiah exchange rates against the U.S. dollar.

| **Company** | Basis | **Effect on adjusted NAV** US$ millions | **Effect on adjusted NAV per share** HK cents |
|---|---|---|---|
| PLDT | (i) | 28.8 | 5.76 |
| MPIC | (i) | 9.9 | 1.99 |
| Indofood | (i) | 23.8 | 4.76 |
| Philex | (i) | 8.4 | 1.67 |
| Head Office – Other asset | (ii) | 1.8 | 0.36 |
| **Total** | | **72.7** | **14.54** |

(i) Based on quoted share prices as at 31 December 2010 applied to the Group's economic interest
(ii) Based on the market value of the shares upon the conversion of MPIC Pesos 6.6 billion (US$150.5 million) convertible bonds

*(B) Group Risk*

The results of the Group's operating units are denominated in local currencies, principally the peso and rupiah, which are translated and consolidated to give the Group's results in U.S. dollars.

## Net Debt by Currency

It is often necessary for operating entities to borrow in U.S. dollars, which results in the risk of a translation impact on local currency results. A summary of consolidated and associated companies' net debt by currency follows.

**Consolidated**

| US$ millions | US$ | Rupiah | Peso | Others | **Total** |
|---|---|---|---|---|---|
| Total borrowings | 1,601.8 | 1,130.6 | 706.8 | – | **3,439.2** |
| Cash and cash equivalents[(i)] | (660.1) | (708.1) | (143.0) | (81.0) | **(1,592.2)** |
| **Net Debt/(Cash)** | 941.7 | 422.5 | 563.8 | (81.0) | **1,847.0** |
| Representing: | | | | | |
| Head Office | 717.4 | – | 100.6 | (1.1) | **816.9** |
| MPIC | 134.6 | – | 463.2 | – | **597.8** |
| Indofood | 89.7 | 422.5 | – | (79.9) | **432.3** |
| **Net Debt/(Cash)** | 941.7 | 422.5 | 563.8 | (81.0) | **1,847.0** |

**Associated**

| US$ millions | US$ | Peso | Others | **Total** |
|---|---|---|---|---|
| **Net Debt/(Cash)** | | | | |
| PLDT | 795.3 | 417.1 | (3.2) | **1,209.2** |
| Philex | (77.0) | (5.8) | – | **(82.8)** |

(i) Includes restricted cash and pledged deposits

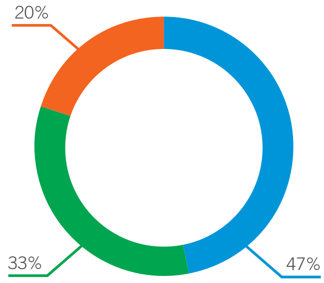
Details of changes in Head Office net debt are set out on page 71.

PLDT carries U.S. dollar debts primarily because international vendors of telecommunications equipment quote prices and require payment in U.S. dollars. In addition, large funding requirements often cannot be satisfied in local currency due to inherent constraints within the financial markets in the Philippines. As a result, financing frequently needs to be sourced from the international capital market, principally in U.S. dollars. PLDT has actively hedged approximately 33% of its U.S. dollar net borrowings. In addition, substantial revenues of PLDT are either denominated in, or linked to, the U.S. dollar. For example, PLDT's U.S. dollar denominated international inbound revenue accounted for approximately US$99.9 million or 3% of PLDT's total service revenues in 2010. In addition, under certain circumstances, PLDT is able to adjust the rates for its fixed line service by one per cent for every Peso 0.1 change in the U.S. dollar exchange rate.

Maynilad carries certain U.S. dollar debts which were arranged for financing its capital expenditures and repayment of advances from shareholders. Under its concession agreement with Metropolitan Waterworks and Sewerage System (MWSS) of the Philippine government for the provision of water and sewerage services in the area of West Metro Manila, Maynilad is entitled to rate adjustments which enable Maynilad to recover/account for present and future foreign exchange losses/gains until the expiration date of the concession on a quarterly basis.

MNTC has entered into cross currency swap transactions to fully hedge its U.S. dollar denominated borrowings at 31 December 2010. However, in January 2011, all of these transactions were terminated by MNTC upon its early repayment of the related borrowings.

## Analysis of Total Borrowings by Currency




| | US$ millions |
|---|---|
| US$ | 1,601.8 |
| Rupiah | 1,130.6 |
| Peso | 706.8 |
| **Total** | **3,439.2** |

Meralco's debt is substantially denominated in peso. Therefore, any change of the U.S. dollar to peso exchange rate will not have a significant impact on Meralco's principal and interest payments. In addition, Meralco is allowed to recover foreign exchange differences on foreign currency-denominated loans through adjustments in its customers' billing in accordance with its local regulations.

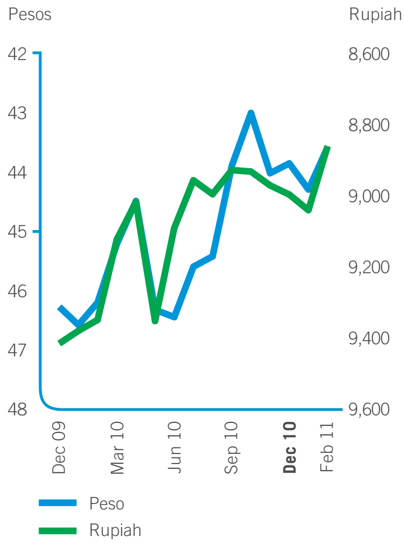
As a result of unhedged U.S. dollar net debt, the Group's results are sensitive to fluctuations in U.S. dollar exchange rates. The following table illustrates the estimated effect on the Group's reported profitability for a one per cent change in the principal operating currencies of subsidiary and associated companies. This does not reflect the indirect effect of fluctuating exchange rates on revenues and input costs at the operating company level.

| US$ millions | Total US$ exposure | Hedged amount | Unhedged amount | Profit effect of 1% currency change | **Group Net Profit Effect** |
|---|---|---|---|---|---|
| Head Office[(i)] | 717.4 | – | 717.4 | – | **–** |
| MPIC[(ii)] | 134.6 | 35.9 | 98.7 | 1.0 | **0.4** |
| Indofood | 89.7 | – | 89.7 | 0.9 | **0.3** |
| PLDT | 795.3 | 261.5 | 533.8 | 5.3 | **1.0** |
| Philex | (77.0) | – | (77.0) | (0.8) | **(0.2)** |
| **Total** | **1,660.0** | **297.4** | **1,362.6** | **6.4** | **1.5** |

(i) As the Group reports its results in U.S. dollars, unhedged U.S. dollar debt at the Head Office does not give rise to any significant exchange exposure.

(ii) In January 2011, MNTC terminated all of its currency swap agreements upon its early repayment of related borrowings, which effectively has no impact to the net unhedged amount of borrowings at MNTC/MPIC and, hence, the Group. Accordingly, such change has no effect on the estimated impact on MPIC's and the Group's net profit for a one per cent change in peso.

### Peso and Rupiah Closing Rates Against the U.S. dollars



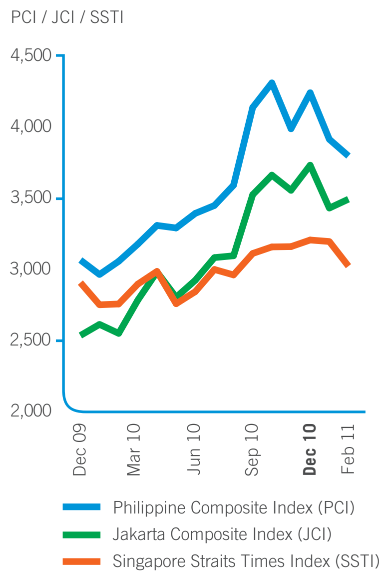

## Equity Market Risk

As the majority of the Company's investments are listed, the Company is exposed to fluctuations in the equity market values of such investments. In addition, the value of the Company's investments may be impacted by sentiment towards specific countries.

First Pacific's listed investments are located in the Philippines, Indonesia and Singapore. Accordingly, in addition to operating factors within the Company's control, the Company also has an equity market risk in respect of general investor sentiment towards these countries. Changes in the stock market indices of the Philippines, Indonesia and Singapore are summarized as follows.

| | **Philippine Composite Index** | **Jakarta Composite Index** | **Singapore Straits Times Index** |
|---|---|---|---|
| At 31 December 2009 | 3,052.7 | 2,534.4 | 2,897.6 |
| **At 31 December 2010** | **4,201.1** | **3,703.5** | **3,190.0** |
| Increase during 2010 | +37.6% | +46.1% | +10.1% |
| At 21 March 2011 | 3,844.3 | 3,518.8 | 2,983.5 |
| Decrease over 2011 to 21 March 2011 | -8.5% | -5.0% | -6.5% |

### Stock Market Indices



## Interest Rate Risk

The Company and its operating entities are exposed to changes in interest rates to the extent that they impact the cost of variable interest rate borrowings. An analysis of this for consolidated and associated companies follows.

**Consolidated**

| US$ millions | Fixed interest rate borrowings | Variable interest rate borrowings | Cash and cash equivalents[(i)] | **Net Debt** |
|---|---|---|---|---|
| Head Office[(ii)] | 1,057.8 | 46.1 | (287.0) | **816.9** |
| MPIC[(iii)] | 412.3 | 329.6 | (144.1) | **597.8** |
| Indofood | 476.4 | 1,117.0 | (1,161.1) | **432.3** |
| **Total** | 1,946.5 | 1,492.7 | (1,592.2) | **1,847.0** |

**Associated**

| US$ millions | Fixed interest rate borrowings | Variable interest rate borrowings | Cash and cash equivalents | **Net Debt/ (Cash)** |
|---|---|---|---|---|
| PLDT | 1,531.0 | 514.8 | (836.6) | **1,209.2** |
| Philex | – | 3.4 | (86.2) | **(82.8)** |

(i) Includes restricted cash and pledged deposits

(ii) In April 2009 and November 2009, a wholly-owned subsidiary company of the Company entered into two interest rate swap agreements, which effectively changed US$245.0 million of Head Office's bank loans from London Inter-bank Offer Rate (LIBOR)-based variable interest rates to fixed interest rates.

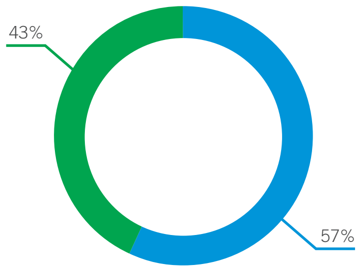
(iii) MNTC entered into certain interest rate swap agreements, which effectively changed US$31.5 million of its bank loans at 31 December 2010 from LIBOR-based and Philippine Reference Rates (PHIREF)-based variable interest rates to fixed interest rates. In January 2011, MNTC terminated all of these interest rate swap agreements upon its early repayment of related borrowings, which effectively has no impact on the amount of variable interest borrowings of MNTC/MPIC and, hence, the Group.

The following table illustrates the estimated effect on the Group's reported profitability for a one per cent change in average annual interest rates in respect of the variable interest rate borrowings.

| US$ millions | Variable interest rate borrowings | Profit effect of 1% change in interest rates | **Group Net Profit Effect** |
|---|---|---|---|
| Head Office | 46.1 | 0.5 | **0.5** |
| MPIC[(i)] | 329.6 | 3.3 | **1.3** |
| Indofood | 1,117.0 | 11.2 | **4.2** |
| PLDT | 514.8 | 5.1 | **1.0** |
| Philex | 3.4 | – | **–** |
| **Total** | **2,010.9** | **20.1** | **7.0** |

(i) Following MNTC's termination of all of its interest rate swap agreements in January 2011 upon its early repayment of related borrowings, the estimated impact to MPIC's and the Group's net profit for a one per cent change in average annual interest rates in respect of the variable interest rate borrowings remains unchanged.

## Interest Rate Profile




| | US$ millions |
|---|---|
| Fixed | 1,946.5 |
| Variable | 1,492.7 |
| **Total** | **3,439.2** |

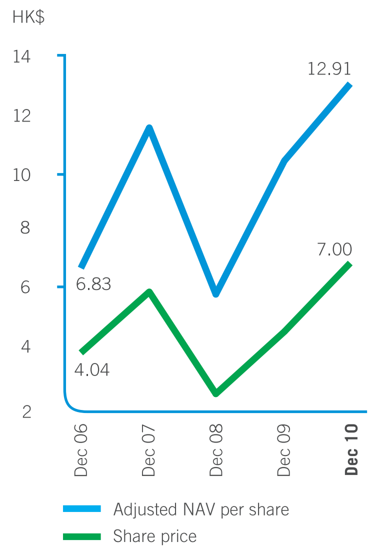
## Adjusted NAV Per Share

There follows a calculation of the Group's underlying worth.

| At 31 December<br>US$ millions | Basis | 2010 | 2009 |
|---|---|---|---|
| PLDT | (i) | **2,879.8** | 2,803.4 |
| MPIC | (i) | **993.9** | 630.4 |
| Indofood | (i) | **2,383.6** | 1,660.2 |
| Philex | (i) | **837.9** | 690.8 |
| Head Office – Other asset | (ii) | **180.2** | – |
| – Net debt | | **(816.9)** | (651.7) |
| **Total Valuation** | | **6,458.5** | 5,133.1 |
| **Number of Ordinary Shares in Issue** (millions) | | **3,902.4** | 3,860.3 |
| Value per share – U.S. dollar | | **1.66** | 1.33 |
| – HK dollars | | **12.91** | 10.37 |
| Company's closing share price (HK$) | | **7.00** | 4.74 |
| Share price discount to HK$ value per share (%) | | **45.8** | 54.3 |

(i) Based on quoted share prices applied to the Group's economic interest
(ii) Based on the market value of the shares upon the conversion of MPIC Pesos 6.6 billion (US$150.5 million) convertible bonds

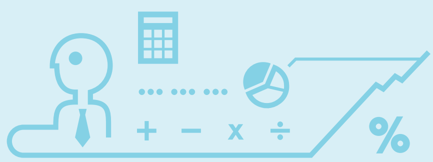
### Share Price vs Adjusted NAV Per Share



# Statutory Reports, Consolidated Financial Statements and Notes to the Consolidated Financial Statements

## Contents





# Report of the Directors

The Directors present their report and the audited financial statements of First Pacific Company Limited (the Company) and its subsidiary companies (together the Group) (the Consolidated Financial Statements) for the year ended 31 December 2010.

## Principal Business Activities and Geographical Market Analysis of Operations

First Pacific Company Limited is a Hong Kong-based investment management and holding company with operations located in Asia. Its principal business interests relate to telecommunications, infrastructure, consumer food products and natural resources. During the year, there were no significant changes in the nature of the Group's principal business activities.

An analysis of the Group's turnover and segmental information for the year is set out in Note 4 to the Consolidated Financial Statements, and a summary of its principal investments is set out on page 164.

## Incorporation

The Company was incorporated on 25 May 1988 in Bermuda with limited liability.

## Share Capital and Share Options

Details of movements in the Company's share capital, share options issued by the Group during the year, together with their reasons, are set out in Notes 29 and 35(D) to the Consolidated Financial Statements.

## Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Financial Statements on pages 90 to 91.

## Purchase, Sale or Redemption of Listed Securities of the Company

During the year, the Company repurchased certain of its shares on the SEHK and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in Note 29(B) to the Consolidated Financial Statements.

Except as disclosed above, neither the Company, nor any of its subsidiary companies, has made any purchase, sale or redemption of any of the Company's listed securities during the year.

## Results and Appropriations

The consolidated profit of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the Consolidated Financial Statements on pages 86 to 160.

An interim dividend of HK6.00 cents (U.S. 0.77 cent) (2009: HK4.00 cents or U.S. 0.51 cent) per ordinary share, totaling HK$233.2 million (US$29.9 million) (2009: HK$128.7 million or US$16.5 million), was paid on 22 September 2010. A special dividend of eight shares of PT Indofood CBP Sukses Makmur Tbk (ICBP) (a subsidiary company of Indofood) (with an option of electing to receive cash in lieu of the distributable ICBP shares which equaled to HK$4.70 (U.S. 60.6 cents) per ICBP share) in the form of distribution in specie for every multiple of 2,000 ordinary shares, totaling 358,565 ICBP shares (equivalent to HK$1.6 million or US$0.2 million) and HK$72.5 million (US$9.3 million) in cash were distributed to the shareholders on 6 December 2010. Further details of the special dividend are provided in Note 11 to the Consolidated Financial Statements. The Directors recommended the payment of a final dividend of HK12.00 cents (U.S. 1.54 cents) (2009: HK8.00 cents or U.S. 1.03 cents) per ordinary share, totaling HK$468.0 million (US$60.0 million) (2009: HK$308.9 million or US$39.6 million). The total dividend per ordinary share for 2010 equals to HK19.88 cents (U.S. 2.55 cents) (2009: HK12.00 cents or U.S. 1.54 cents).

## Charitable Contributions

The Group made charitable contributions totaling US$23.9 million in 2010 (2009: US$19.8 million).

## Property, Plant and Equipment

Details of movements in the Group's property, plant and equipment during the year are provided in Note 12 to the Consolidated Financial Statements.

## Borrowings
Details of the borrowings of the Group are provided in Note 26 to the Consolidated Financial Statements.

## Distributable Reserves
At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended) amounted to US$436.0 million (2009: US$481.7 million). The Company's share premium account, in the amount of US$1,273.0 million (2009: US$1,245.9 million), may be distributed in the form of fully paid bonus shares.

## Pre-emptive Rights
There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Directors
The names of the Directors of the Company who held office at 31 December 2010 are set out on pages 46 to 49. Details of the remuneration policy and other details are provided in the Corporate Governance Report on page 59 and Note 35(A) to the Consolidated Financial Statements, respectively.

## Interests of Directors in the Company and its Associated Corporations
At 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company, underlying shares and debentures of the Company or its any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (SFO)) which (a) were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as adopted by the Company (Model Code), to be notified to the Company and SEHK were as follows:

### (A) Long Positions in Shares in the Company

| Name | Ordinary shares | Approximate percentage of issued share capital (%) | Ordinary share options |
|---|---|---|---|
| Anthoni Salim | 1,706,947,154(C)(i) | 43.74 | – |
| Manuel V. Pangilinan | 41,405,305(P) | 1.06 | 31,831,556 |
| Edward A. Tortorici | 36,659,323(P) | 0.94 | 11,483,256 |
| Robert C. Nicholson | 12,914(P) | 0.00 | 26,337,388 |
| Ambassador Albert F. del Rosario | 721,431(P) | 0.02 | 3,330,719 |
| Benny S. Santoso | – | – | 6,324,150 |
| Graham L. Pickles | – | – | 3,330,719 |
| Prof. Edward K.Y. Chen, *GBS, CBE, JP* | – | – | 4,743,113 |
| Sir David W.C. Tang, *KBE* | – | – | 2,330,719 |
| Napoleon L. Nazareno | – | – | 3,330,000 |
| Jun Tang | – | – | 3,330,000 |

(C) = Corporate interest, (P) = Personal interest

(i) Anthoni Salim indirectly owns 100% of First Pacific Investments (B.V.I.) Limited and Mega Ring Investments Limited which, in turn, are interested in 632,226,599 ordinary shares and 284,491,191 ordinary shares respectively in the Company. Anthoni Salims' indirect interests in First Pacific Investments (B.V.I.) Limited and Mega Ring Investments Limited are held through Salerni International Limited (a company of which Anthoni Salim directly holds 100% of the issued share capital). Anthoni Salim also owns 56.8% of First Pacific Investments Limited which, in turn, is interested in 790,229,364 ordinary shares in the Company. Of this, 10.0% is held by Anthoni Salim directly, and 46.8% by Salerni International Limited. The remaining 43.2% interest in First Pacific Investments Limited is owned as to 30.0% by Sutanto Djuhar#, 10.0% by Tedy Djuhar and 3.2% by a company controlled by Ibrahim Risjad. Tedy Djuhar and Ibrahim Risjad are Non-executive Directors of the Company.

# Sutanto Djuhar retired from the Board of Directors of the Company with effect from 31 May 2010.

### (B) Long Positions in Shares in Associated Corporations

- Manuel V. Pangilinan owned 21,242,404 common shares[P] (0.11%)* in MPIC, 211,033 common shares[P] (0.11%)* in PLDT and 360 preferred shares[P] (less than 0.01%)* in PLDT as beneficial owner and a further 15,417 common shares (less than 0.01%)* in PLDT as nominee, 2,011,250 common shares[P] (0.04%)* and 1,893,750 share options in Philex, as well as 25,000 common shares[P] (less than 0.01%)* in Meralco.
- Edward A. Tortorici owned 69,596 common shares[C] and 10,660,000 common shares[P] (collectively 0.05%)* in MPIC, 104,874 common shares[P] (0.06%)* in PLDT and 300,100 common shares[P] (less than 0.01%)* in Philex.
- Robert C. Nicholson owned 1,250 common shares[P] (less than 0.01%)* and 3,750,000 share options in Philex, 10,000,000 share options in MPIC, as well as US$400,000 of bonds due 2017 issued by FPMH Finance Limited and US$200,000 of bonds due 2020 issued by FPT Finance Limited, both of which are wholly-owned subsidiaries of the Company.
- Tedy Djuhar owned 15,520,335 ordinary shares[C] (0.18%)* in Indofood.
- Ibrahim Risjad owned 6,406,180 ordinary shares[C] (0.07%)* in Indofood.
- Anthoni Salim owned 1,329,770 ordinary shares[P] (0.02%)* in Indofood and an indirect interest of 4,396,103,450 Indofood shares (50.07%)* through the Company's group companies and a direct interest of 2,007,788 shares[C] (0.14%)* in Indofood Agri Resources Ltd. (IndoAgri) through his controlled corporations other than the Company and an indirect interest of 998,200,000 IndoAgri shares (69.38%)* through the Company's group companies.
- Ambassador Albert F. del Rosario owned 140,005 common shares[P] (0.08%)* and 1,560 preferred shares[P] (less than 0.01%)* in PLDT, 12,966,624 common shares[P] (0.06%)* in MPIC, 675,100 common shares[P] (0.01%)* in Philex, 26,700 common shares[P] (less than 0.01%)* in Meralco, 32,231,970 preferred shares (54.9%)* in Prime Media Holdings, Inc. (PMH) as nominee, 4 common shares[P] (less than 0.01%)* in PMH as beneficial owner, 4,922 common shares[P] (2.46%)* in Costa de Madera Corporation and 15,000 common shares[P] (5.00%)* in Metro Pacific Land Holdings, Inc.
- Napoleon L. Nazareno owned 6,648 common shares[P] (less than 0.01%)* in MPIC, 13,927 common shares[P] (less than 0.01%)* and 495 preferred shares[P] (less than 0.01%)* in PLDT, as well as 110,000 common shares[P] (0.01%)* in Meralco.

(P) = Personal interest, (C) = Corporate interest

* Approximate percentage of the issued capital of the respective class of shares in the respective associated corporation as at 31 December 2010.

At 31 December 2010, other than as disclosed above, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or its any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and SEHK.

## Interests of Substantial Shareholders in the Company

At 31 December 2010, persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(a) Salerni International Limited (Salerni), which was incorporated in the British Virgin Islands, was interested in 1,706,947,154 ordinary shares of the Company (long position) at 31 December 2010, representing approximately 43.74% of the Company's issued share capital at that date, by way of its 46.80% interest in First Pacific Investments Limited (FPIL-Liberia), its 100% interest in First Pacific Investments (B.V.I.) Limited (FPIL-BVI) and 100% interest in Mega Ring Investments Limited (Mega Ring). Anthoni Salim, Chairman of the Company, beneficially owns the entire issued share capital of Salerni and, accordingly, is taken to be interested in the shares owned by Salerni.

(b) FPIL-Liberia, which was incorporated in the Republic of Liberia, beneficially owned 790,229,364 ordinary shares at 31 December 2010, representing approximately 20.25% of the Company's issued share capital at that date. FPIL-Liberia is owned by Anthoni Salim (Chairman of the Company) and Tedy Djuhar (a Non-executive Director of the Company), Ibrahim Risjad (a Non-executive Director of the Company) and Sutanto Djuhar, in the proportion specified in note (i) of the table on page 81. Anthoni Salim, Chairman of the Company, is taken to be interested in the shares owned by FPIL-Liberia.

(c) FPIL-BVI, which was incorporated in the British Virgin Islands, beneficially owned 632,226,599 ordinary shares at 31 December 2010, representing approximately 16.20% of the Company's issued share capital at that date. Anthoni Salim, Chairman of the Company, beneficially owns the entire issued share capital of FPIL-BVI and, accordingly, is taken to be interested in the shares owned by FPIL-BVI.

(d) Mega Ring, which was incorporated in the British Virgin Islands, beneficially owned 284,491,191 ordinary shares at 31 December 2010, representing approximately 7.29% of the Company's issued share capital at that date. Anthoni Salim, Chairman of the Company, beneficially owns the entire issued share capital of Mega Ring and, accordingly, is taken to be interested in the shares owned by Mega Ring.

(e) Marathon Asset Management Limited (Marathon), a United Kingdom incorporated company, notified the Company that it held 234,259,901 ordinary shares of the Company as at 1 December 2010, representing approximately 5.99% of the Company's issued share capital at that date. At 31 December 2010, the Company has not received any other notification from Marathon of any change to such holding.

(f) Lazard Asset Management LLC (Lazard), a United States incorporated company, notified the Company that it held 232,267,400 ordinary shares of the Company as at 29 December 2009, representing approximately 6.02% of the Company's issued share capital at that date. At 31 December 2010, the Company has not received any other notification from Lazard of any change to such holding.

Other than as disclosed above, the Company has not been notified of any person (other than Directors or chief executive of the Company) at 31 December 2010 who had an interest or short position in the shares or underlying shares and debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Contracts of Significance

Except for the connected and continuing connected transactions set out in the Corporate Governance Report on pages 60 to 70, there were no contracts of significance in relation to the Company's business to which the Company or its subsidiary companies were parties, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

None of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to the Company or any of its subsidiary companies at the end of the year or at any time during the year.

## Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed under the heading "Interests of Directors in the Company and its Associated Corporations" above and "Share Options" in Note 35(D)(a) to the Consolidated Financial Statements, at no time during the year was the Company or any of its subsidiary companies a party to any arrangement 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 year.

## Summary Financial Information

A summary of the published results, assets, liabilities and non-controlling interests, and various information and financial ratios of the Company and the Group for the last ten financial years, as extracted from the audited Consolidated Financial Statements and restated/reclassified as appropriate, is set out on page 2. This summary does not form part of the audited Consolidated Financial Statements.

## Major Customers and Suppliers

In 2010, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year, whereas purchases from the Group's five largest suppliers accounted for 35% (2009: 34%) of the total purchases for the year of which purchases from the largest supplier included therein accounted for 31% (2009: 32%) of the total purchases.

## Connected and Continuing Connected Transactions

Connected and continuing connected transactions required to be disclosed in accordance with Chapter 14A of the Listing Rules, are disclosed in the Corporate Governance Report on pages 60 to 70.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at both 31 December 2010 and the date of this report.

## Directors' and Officers' Liability Insurance

During the year, the Company has maintained appropriate Directors' and officers' liability insurance for all Directors and officers of the Company and its related companies, save in those instances where individual companies have maintained their own coverage.

## Employment Policy

The Company has a policy of non-discrimination in respect of the age, religion, gender, race, disability or marital status of employees and prospective employees. This ensures that individuals are treated equally, given their skills and abilities, in terms of career development and opportunities for advancement.

## Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board of Directors

**Nancy L.M. Li**
*Company Secretary*

Hong Kong
21 March 2011

ERNST & YOUNG

# Independent Auditors' Report

**TO THE SHAREHOLDERS OF FIRST PACIFIC COMPANY LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the Consolidated Financial Statements of First Pacific Company Limited (the Company) and its subsidiaries (together, the Group) set out on pages 86 to 160, which comprise the consolidated and Company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of these Consolidated Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of Consolidated Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ERNST & YOUNG**
*Certified Public Accountants*

18th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong

21 March 2011

# Consolidated Financial Statements

## Consolidated Income Statement

| For the year ended 31 December<br>US$ millions | Notes | **2010** | 2009 |
|---|---|---|---|
| **Turnover** | 4 | **4,640.2** | 3,925.6 |
| Cost of sales | | **(2,992.8)** | (2,739.9) |
| **Gross Profit** | | **1,647.4** | 1,185.7 |
| Gain on disposals and dilutions | | **22.6** | 85.9 |
| Distribution costs | | **(371.4)** | (289.0) |
| Administrative expenses | | **(357.3)** | (286.8) |
| Other operating (expenses)/income, net | | **(4.5)** | 105.1 |
| Net borrowing costs | 5 | **(243.0)** | (230.3) |
| Share of profits less losses of associated companies and joint ventures | | **284.9** | 233.4 |
| **Profit Before Taxation** | 6 | **978.7** | 804.0 |
| Taxation | 7 | **(203.2)** | (143.7) |
| **Profit for the Year from Continuing Operations** | | **775.5** | 660.3 |
| Profit for the year from a discontinued operation | 8 | **–** | 1.1 |
| **Profit for the Year** | | **775.5** | 661.4 |
| **Attributable to:** | | | |
| Owners of the parent | 9 | **403.7** | 401.6 |
| Non-controlling interests | | **371.8** | 259.8 |
| | | **775.5** | 661.4 |
| **Earnings Per Share Attributable to Owners of the Parent** (U.S. cents) | 10 | | |
| **Basic** | | | |
| For profit from continuing operations | | **10.40** | 11.64 |
| For profit from a discontinued operation | | **–** | 0.07 |
| For profit for the year | | **10.40** | 11.71 |
| **Diluted** | | | |
| For profit from continuing operations | | **10.08** | 11.28 |
| For profit from a discontinued operation | | **–** | 0.07 |
| For profit for the year | | **10.08** | 11.35 |

Details of the dividends payable and proposed for the year are disclosed in Note 11 to the Consolidated Financial Statements.

The Notes on pages 94 to 160 form an integral part of the Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

| For the year ended 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| **Profit for the Year** | **775.5** | 661.4 |
| **Other Comprehensive Income/(Loss)** | | |
| Exchange differences on translating foreign operations | **201.8** | 298.6 |
| Unrealized gains on available-for-sale assets | **12.3** | 16.9 |
| Realized gains on available-for-sale assets | **–** | (3.6) |
| Unrealized losses on cash flow hedges | **(7.2)** | (5.8) |
| Realized losses on cash flow hedges | **3.8** | 1.5 |
| Income tax related to cash flow hedges | **(1.3)** | 1.1 |
| Share of revaluation increment of an associated company's assets | **1.8** | 12.7 |
| Realized exchange and capital reserve upon dilution of interest in subsidiary companies | **–** | 9.0 |
| Other comprehensive income for the year, net of tax | **211.2** | 330.4 |
| **Total Comprehensive Income for the Year** | **986.7** | 991.8 |
| **Attributable to:** | | |
| Owners of the parent | **500.4** | 540.7 |
| Non-controlling interests | **486.3** | 451.1 |
| | **986.7** | 991.8 |

# Consolidated Statement of Financial Position

| US$ millions | Notes | **At 31 December 2010** | At 31 December 2009 (Restated)[i] | At 1 January 2009 (Restated)[i] |
|---|---|---|---|---|
| **Non-current Assets** | | | | |
| Property, plant and equipment | 12 | **1,419.3** | 1,249.0 | 966.6 |
| Plantations | 13 | **1,162.6** | 1,009.2 | 744.5 |
| Associated companies and joint ventures | 15 | **2,439.4** | 2,068.0 | 1,202.3 |
| Goodwill | 16 | **817.1** | 775.2 | 675.6 |
| Other intangible assets | 17 | **1,960.1** | 1,728.4 | 1,538.5 |
| Accounts receivable, other receivables and prepayments | 18 | **23.8** | 6.6 | 3.0 |
| Available-for-sale assets | 19 | **13.8** | 2.1 | 1.7 |
| Deferred tax assets | 20 | **82.8** | 58.3 | 38.7 |
| Other non-current assets | 21 | **212.0** | 305.9 | 217.1 |
| | | **8,130.9** | 7,202.7 | 5,388.0 |
| **Current Assets** | | | | |
| Cash and cash equivalents | 22 | **1,538.8** | 936.6 | 625.9 |
| Restricted cash and pledged deposits | 23 | **53.4** | 29.2 | 12.0 |
| Available-for-sale assets | 19 | **62.8** | 40.4 | 56.9 |
| Accounts receivable, other receivables and prepayments | 18 | **492.7** | 632.1 | 430.5 |
| Inventories | 24 | **635.5** | 549.2 | 557.4 |
| Assets held for sale | 8 | **–** | 7.1 | – |
| | | **2,783.2** | 2,194.6 | 1,682.7 |
| Assets of a disposal group classified as held for sale | 8 | **–** | – | 128.3 |
| | | **2,783.2** | 2,194.6 | 1,811.0 |
| **Current Liabilities** | | | | |
| Accounts payable, other payables and accruals | 25 | **707.5** | 628.2 | 667.4 |
| Short-term borrowings | 26 | **645.4** | 829.7 | 1,207.0 |
| Provision for taxation | 27 | **54.4** | 68.9 | 55.8 |
| Current portion of deferred liabilities and provisions | 28 | **97.5** | 73.5 | 39.4 |
| | | **1,504.8** | 1,600.3 | 1,969.6 |
| Liabilities directly associated with the assets classified as held for sale | 8 | **–** | – | 106.1 |
| | | **1,504.8** | 1,600.3 | 2,075.7 |
| **Net Current Assets/(Liabilities)** | | **1,278.4** | 594.3 | (264.7) |
| **Total Assets Less Current Liabilities** | | **9,409.3** | 7,797.0 | 5,123.3 |
| **Equity** | | | | |
| Issued share capital | 29 | **39.0** | 38.6 | 32.1 |
| Retained earnings | | **858.7** | 556.4 | 196.0 |
| Other components of equity | 30 | **1,677.5** | 1,321.2 | 902.0 |
| Equity attributable to owners of the parent | | **2,575.2** | 1,916.2 | 1,130.1 |
| Non-controlling interests | 31 | **3,036.9** | 2,122.9 | 1,245.1 |
| **Total Equity** | | **5,612.1** | 4,039.1 | 2,375.2 |
| **Non-current Liabilities** | | | | |
| Long-term borrowings | 26 | **2,793.8** | 2,855.6 | 1,951.7 |
| Deferred liabilities and provisions | 28 | **573.1** | 507.0 | 432.4 |
| Deferred tax liabilities | 20 | **430.3** | 395.3 | 364.0 |
| | | **3,797.2** | 3,757.9 | 2,748.1 |
| | | **9,409.3** | 7,797.0 | 5,123.3 |

(i) Refer to Note 2(B)

The Notes on pages 94 to 160 form an integral part of the Consolidated Financial Statements.

On behalf of the Board of Directors

**MANUEL V. PANGILINAN**
*Managing Director and Chief Executive Officer*

**EDWARD A. TORTORICI**
*Executive Director*

21 March 2011

# Company Statement of Financial Position

| At 31 December<br>US$ millions | Notes | 2010 | 2009 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Subsidiary companies | 14 | **1,006.2** | 996.2 |
| | | **1,006.2** | 996.2 |
| **Current Assets** | | | |
| Cash and cash equivalents | 22 | **256.2** | 262.2 |
| Amounts due from subsidiary companies | 14(A) | **2,079.6** | 2,062.9 |
| Assets held for sale | | **7.8** | – |
| Other receivables and prepayments | | **0.1** | 0.1 |
| | | **2,343.7** | 2,325.2 |
| **Current Liabilities** | | | |
| Amounts due to subsidiary companies | 14(B) | **697.4** | 782.4 |
| Other payables and accruals | | **0.9** | 0.8 |
| | | **698.3** | 783.2 |
| **Net Current Assets** | | **1,645.4** | 1,542.0 |
| **Total Assets Less Current Liabilities** | | **2,651.6** | 2,538.2 |
| **Equity** | | | |
| Issued share capital | 29 | **39.0** | 38.6 |
| Retained earnings | | **262.2** | 307.9 |
| Other components of equity | | **1,486.7** | 1,461.8 |
| Equity attributable to owners of the parent | | **1,787.9** | 1,808.3 |
| **Non-current Liabilities** | | | |
| Loans from subsidiary companies | 14(C) | **863.7** | 729.9 |
| | | **2,651.6** | 2,538.2 |

The Notes on pages 94 to 160 form an integral part of the Consolidated Financial Statements.

On behalf of the Board of Directors

**MANUEL V. PANGILINAN**
*Managing Director and Chief Executive Officer*

**EDWARD A. TORTORICI**
*Executive Director*

21 March 2011

# Consolidated Statement of Changes in Equity

| US$ millions | Notes | Equity attributable to owners of the parent: Issued share capital | Share premium | Share options issued | Exchange reserve | Unrealized gains on available-for-sale assets | Unrealized gains/(losses) on cash flow hedges | Income tax related to cash flow hedges | Differences arising from changes in equities of subsidiary companies | Capital and other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2009 | | 32.1 | 974.1 | 34.7 | (116.0) | 11.7 | 2.7 | (0.8) | – | (4.4) | 196.0 | 1,130.1 | 1,245.1 | 2,375.2 |
| Total comprehensive income for the year | | – | – | – | 117.2 | 10.7 | (3.9) | 1.1 | – | 14.0 | 401.6 | 540.7 | 451.1 | 991.8 |
| Issue of shares upon the exercise of share options | 29(A) | – | 1.2 | (0.4) | – | – | – | – | – | – | – | 0.8 | – | 0.8 |
| Issue of shares in respect of rights issue | | 6.5 | 270.6 | – | – | – | – | – | – | – | – | 277.1 | – | 277.1 |
| Equity-settled share option arrangements | | – | – | 8.8 | – | – | – | – | – | – | – | 8.8 | 0.5 | 9.3 |
| 2008 final dividend | | – | – | – | – | – | – | – | – | – | (24.7) | (24.7) | – | (24.7) |
| 2009 interim dividend | 11 | – | – | – | – | – | – | – | – | – | (16.5) | (16.5) | – | (16.5) |
| Disposal of a disposal group classified as assets held for sale | | – | – | – | – | – | – | – | – | (0.1) | – | (0.1) | (6.4) | (6.5) |
| Acquisition of non-controlling interests | | – | – | – | – | – | – | – | – | – | – | – | (8.4) | (8.4) |
| Change in attributable interests | | – | – | – | – | – | – | – | – | – | – | – | 481.9 | 481.9 |
| Dividends paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | – | – | – | (40.9) | (40.9) |
| Balance at 31 December 2009 | | 38.6 | 1,245.9 | 43.1 | 1.2 | 22.4 | (1.2) | 0.3 | – | 9.5 | 556.4 | 1,916.2 | 2,122.9 | 4,039.1 |
| Balance at 1 January 2010 | | 38.6 | 1,245.9 | 43.1 | 1.2 | 22.4 | (1.2) | 0.3 | – | 9.5 | 556.4 | 1,916.2 | 2,122.9 | **4,039.1** |
| Total comprehensive income for the year | | – | – | – | 94.5 | 5.3 | (3.6) | (1.3) | – | 1.8 | 403.7 | 500.4 | 486.3 | **986.7** |
| Issue of shares upon the exercise of share options | 29(A) | 0.7 | 27.1 | (8.9) | – | – | – | – | – | – | – | 18.9 | – | **18.9** |
| Repurchase and cancellation of shares | 29(B) | (0.3) | – | – | – | – | – | – | – | 0.3 | (22.4) | (22.4) | – | **(22.4)** |
| Equity-settled share option arrangements | | – | – | 6.6 | – | – | – | – | – | – | – | 6.6 | 0.2 | **6.8** |
| 2009 final dividend | 11 | – | – | – | – | – | – | – | – | – | (39.6) | (39.6) | – | **(39.6)** |
| 2010 interim dividend | 11 | – | – | – | – | – | – | – | – | – | (29.9) | (29.9) | – | **(29.9)** |
| 2010 special dividend | 11 | – | – | – | – | – | – | – | – | – | (9.5) | (9.5) | – | **(9.5)** |
| Dividends paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | | – | – | (82.4) | **(82.4)** |
| Disposal of an associated company | | – | – | (0.6) | (0.3) | – | – | – | – | – | – | (0.9) | – | **(0.9)** |
| Acquisition of subsidiary companies | 32(E) | – | – | – | – | – | – | – | – | – | – | – | 5.0 | **5.0** |
| Acquisition, dilution and divestment of interests in subsidiary companies | | – | – | – | – | – | – | – | 234.7 | – | – | 234.7 | 504.9 | **739.6** |
| Acquisition of interests in subsidiary companies by associated companies | | – | – | – | – | – | – | – | 0.7 | – | – | 0.7 | – | **0.7** |
| **Balance at 31 December 2010** | | **39.0** | **1,273.0** | **40.2** | **95.4** | **27.7** | **(4.8)** | **(1.0)** | **235.4** | **11.6** | **858.7** | **2,575.2** | **3,036.9** | **5,612.1** |

The Notes on pages 94 to 160 form an integral part of the Consolidated Financial Statements.

# Company Statement of Changes in Equity

| US$ millions | Notes | Issued share capital | Share premium | Share options issued | Capital redemption reserve | Contributed surplus | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2009 | | 32.1 | 974.1 | 34.1 | 0.2 | 173.8 | 344.0 | 1,558.3 |
| Profit for the year | | – | – | – | – | – | 5.1 | 5.1 |
| Issue of shares upon the exercise of share options | 29(A) | – | 1.2 | (0.4) | – | – | – | 0.8 |
| Issue of shares in respect of rights issue | | 6.5 | 270.6 | – | – | – | – | 277.1 |
| Equity-settled share option arrangements | | – | – | 8.2 | – | – | – | 8.2 |
| 2008 final dividend | | – | – | – | – | – | (24.7) | (24.7) |
| 2009 interim dividend | 11 | – | – | – | – | – | (16.5) | (16.5) |
| Balance at 31 December 2009 | | 38.6 | 1,245.9 | 41.9 | 0.2 | 173.8 | 307.9 | **1,808.3** |
| Profit for the year | | – | – | – | – | – | 55.7 | **55.7** |
| Issue of shares upon the exercise of share options | 29(A) | 0.7 | 27.1 | (8.9) | – | – | – | **18.9** |
| Repurchase and cancellation of shares | 29(B) | (0.3) | – | – | 0.3 | – | (22.4) | **(22.4)** |
| Equity-settled share option arrangements | | – | – | 6.4 | – | – | – | **6.4** |
| 2009 final dividend | 11 | – | – | – | – | – | (39.6) | **(39.6)** |
| 2010 interim dividend | 11 | – | – | – | – | – | (29.9) | **(29.9)** |
| 2010 special dividend | 11 | – | – | – | – | – | (9.5) | **(9.5)** |
| **Balance at 31 December 2010** | | **39.0** | **1,273.0** | **39.4** | **0.5** | **173.8** | **262.2** | **1,787.9** |

The Notes on pages 94 to 160 form an integral part of the Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

| For the year ended 31 December<br>US$ millions | Notes | 2010 | 2009<br>(Restated)[i] |
|---|---|---|---|
| **Profit Before Taxation** | | | |
| From continuing operations | | **978.7** | 804.0 |
| From a discontinued operation | | **–** | 0.1 |
| Adjustments for: | | | |
| Interest expenses | 5 | **274.9** | 257.8 |
| Depreciation | 6 | **119.0** | 102.3 |
| Decrease/(increase) in other non-current assets | | **98.0** | (71.0) |
| Amortization of other intangible assets | 6 | **71.9** | 83.7 |
| Equity-settled share option expense | 34(A) | **7.2** | 9.3 |
| Impairment losses recognized | 6 | **1.4** | 12.4 |
| Loss/(gain) on dilution and divestment of interest in an associated company | 6 | **0.4** | (1.2) |
| Share of profits less losses of associated companies and joint ventures | | **(284.9)** | (233.4) |
| Gain on changes in fair value of plantations | 6 | **(34.0)** | (60.2) |
| Interest income | 5 | **(31.9)** | (27.5) |
| Increase in accounts receivable, other receivables and prepayments (Non-current) | | **(27.5)** | (1.5) |
| Gain on disposal of an associated company | 6 | **(21.2)** | – |
| Foreign exchange and derivative gains, net | 6 | **(9.5)** | (72.6) |
| Preferred shares dividend income from a joint venture | 6 | **(8.3)** | – |
| (Gain)/loss on sale of property, plant and equipment | 6 | **(5.8)** | 9.6 |
| Gain on disposal of a joint venture | 6 | **(1.8)** | – |
| Dividend income from available-for-sale assets | | **(0.1)** | (0.1) |
| Gain on dilution of interest in subsidiary companies | 6 | **–** | (84.7) |
| Realized gain on sale of available-for-sale assets | 6 | **–** | (3.6) |
| Others | | **(8.7)** | 3.3 |
| | | **1,117.8** | 726.7 |
| Increase/(decrease) in accounts payable, other payables and accruals | | **232.5** | (229.4) |
| (Increase)/decrease in inventories | | **(58.3)** | 91.2 |
| Increase in accounts receivable, other receivables and prepayments (Current) | | **(58.7)** | (155.5) |
| Net cash generated from operations | | **1,233.3** | 433.0 |
| Interest received | | **29.7** | 21.3 |
| Interest paid | | **(211.0)** | (244.3) |
| Taxes paid | 27 | **(232.1)** | (150.9) |
| **Net Cash Flows from Operating Activities** | | **819.9** | 59.1 |

(i) Refer to Note 2(B)

continued/...

# Consolidated Statement of Cash Flows (continued)

| For the year ended 31 December<br>US$ millions | Notes | 2010 | 2009<br>(Restated)[i] |
|---|---|---|---|
| Proceeds from divestment of interest in subsidiary companies | 32(A) | **755.5** | – |
| Decrease in loan receivables | | **248.8** | – |
| Dividends received from associated companies | 15(B) | **238.2** | 210.6 |
| Proceeds from disposal of an associated company | 32(B) | **23.3** | – |
| Proceeds from sale of property, plant and equipment | | **10.4** | 5.6 |
| Preferred shares dividends received from a joint venture | | **8.3** | – |
| Proceeds from disposal of a joint venture | | **5.4** | – |
| Proceeds from disposal of assets held for sale | | **1.1** | – |
| Dividends from available-for-sale assets | | **0.1** | – |
| Purchase of property, plant and equipment | | **(243.0)** | (221.8) |
| Investments in other intangible assets | | **(198.3)** | (99.3) |
| Investments in plantations | | **(72.4)** | (68.7) |
| Increased investments in associated companies | 32(C) | **(59.4)** | (271.2) |
| Increased investments in subsidiary companies | 32(D) | **(40.1)** | (10.4) |
| Acquisition of subsidiary companies | 32(E) | **(5.9)** | (0.8) |
| Proceeds from disposal of available-for-sale assets | | **–** | 43.3 |
| Proceeds from divestment of interest in an associated company | | **–** | 2.5 |
| Investments in associated companies | | **–** | (274.5) |
| Investment in a joint venture | | **–** | (5.3) |
| Acquisition of available-for-sale assets | | **–** | (0.9) |
| **Net Cash Flows from/(Used in) Investing Activities** | | **672.0** | (690.9) |
| Proceeds from new borrowings | | **1,364.9** | 1,805.4 |
| Decrease/(increase) in time deposits with original maturity of more than three months | | **53.9** | (50.9) |
| Proceeds from the issue of shares upon the exercise of share options | | **20.3** | 1.5 |
| Proceeds from sale of treasury shares by a subsidiary company | | **19.1** | 18.2 |
| Borrowings repaid | | **(1,960.3)** | (1,384.8) |
| Investment in preferred shares of a joint venture | | **(146.5)** | – |
| Dividends paid to non-controlling shareholders by subsidiary companies | | **(82.4)** | (40.9) |
| Dividends paid to shareholders | | **(79.0)** | (41.2) |
| Increase in restricted cash | | **(23.2)** | (16.7) |
| Repurchase of shares | | **(22.1)** | – |
| Shares issued to non-controlling interests by subsidiary companies | | **1.6** | 286.9 |
| Proceeds from rights issue of the Company | | **–** | 277.1 |
| **Net Cash Flows (Used in)/from Financing Activities** | | **(853.7)** | 854.6 |
| **Net Increase in Cash and Cash Equivalents** | | **638.2** | 222.8 |
| Cash and cash equivalents at 1 January | | **883.9** | 625.9 |
| Exchange translation | | **16.6** | 35.2 |
| **Cash and Cash Equivalents at 31 December** | | **1,538.7** | 883.9 |
| **Representing** | | | |
| Cash and cash equivalents | | **1,538.8** | 936.6 |
| Less time deposits with original maturity of more than three months | | **(0.1)** | (52.7) |
| **Cash and Cash Equivalents at 31 December** | | **1,538.7** | 883.9 |

(i) Refer to Note 2(B)

The Notes on pages 94 to 160 form an integral part of the Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

## 1. Corporate Information

First Pacific Company Limited is a Hong Kong-based investment management and holding company with operations located in Asia. Its principal business interests relate to telecommunications, consumer food products, infrastructure and natural resources.

The Group comprises the Company and its subsidiary companies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company's ordinary shares are listed on the SEHK. Its shares are also available for trading in the United States through ADRs.

## 2. Basis of Preparation and Summary of Principal Accounting Policies

### (A) Basis of Preparation

The Consolidated Financial Statements have been prepared in accordance with HKFRSs (which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA, Hong Kong GAAP, the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. The Consolidated Financial Statements have been prepared under the historical cost convention except for plantations, available-for-sale assets and derivative financial instruments which, as disclosed in the accounting policies below, are stated at fair value. These Consolidated Financial Statements are presented in United States (U.S.) dollars and rounded to the nearest million (US$ millions) with one decimal place except when otherwise indicated.

### (B) Impact of New and Revised HKFRSs

During 2010, the Group has adopted the following new and revised HKFRSs issued by the HKICPA for the first time for the current year's financial statements:

| | |
|---|---|
| HKAS 27 (Revised) | "Consolidated and Separate Financial Statements"(i) |
| HKAS 39 Amendment | "Eligible Hedged Items"(i) |
| HKFRS 1 (Revised) | "First-time Adoption of Hong Kong Financial Reporting Standards"(i) |
| HKFRS 1 Amendments | "Additional Exemptions for First-time Adopters"(ii) |
| HKFRS 2 Amendments | "Group Cash-settled Share-based Payment Transactions"(ii) |
| HKFRS 3 (Revised) | "Business Combinations"(i) |
| HKFRS 5 Amendments | "Plan to Sell the Controlling Interest in a Subsidiary"(i)(ii) |
| HK(IFRIC)-Int 17 | "Distributions of Non-cash Assets to Owners"(i) |
| HK Int 4 Amendment | "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"(ii) |
| HK Int 5 | "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"(iii) |
| Improvements to HKFRSs | "Improvements to HKFRSs" and "Improvements to HKFRSs 2009"(iv) |

(i) Effective for annual periods commencing on or after 1 July 2009
(ii) Effective for annual periods commencing on or after 1 January 2010
(iii) Effective on 29 November 2010
(iv) Generally effective for annual periods commencing on or after 1 January 2010, unless otherwise stated in the specific HKFRSs

The adoption of the above pronouncements (except for HKAS 27 (Revised) and HKFRS 3 (Revised)) has had no effect on both the profit attributable to owners of the parent for the years ended 31 December 2010 and 31 December 2009 and the equity attributable to owners of the parent at 31 December 2010 and 31 December 2009, but only results in certain changes in the financial statement presentation and disclosures. In particular, the adoption of the amendments to HKAS 17 "Leases" included in Improvements to HKFRSs 2009 has resulted in changes in classification of certain items on the statement of financial position and income statement. The adoption affects the Group's accounting treatments for (i) transactions between the owners and the non-controlling interests of subsidiary companies; (ii) business combinations and (iii) classification of certain items on the statement of financial position and income statement in relation to leasehold land. The impacts of adopting HKAS 27 (Revised), HKFRS 3 (Revised) and the amendments to HKAS 17 are summarized as follows.

The Group's adoption of HKAS 27 (Revised) and HKFRS 3 (Revised) results in changes in the Group's accounting policies which have been applied prospectively starting 1 January 2010, whereas, the Group's retrospective adoption of the amendments to HKAS 17 result in changes in the Group's accounting policies and comparative amounts of certain items in the Group's financial statements for the prior years.

HKAS 27 (Revised) changes (a) the term "minority interest" to "non-controlling interest" and (b) the accounting treatments of the Group in respect of (i) changes in its ownership interests in subsidiary companies, for cases which result in either a loss of control or not, and (ii) losses incurred by its subsidiary companies. For the changes in the Group's ownership interest in a subsidiary company that do not result in a loss of control, the Group is required by the revised standard to account for such changes as equity transactions. Accordingly, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. For the changes in the Group's ownership interest in a subsidiary company that result in a loss of control, the Group is required by the revised standard to (a) remeasure the retained investment at its fair value at the date when control was lost and (b) recognize the difference between (i) the fair value of consideration received and the retained investment and (ii) the carrying amounts of assets (including the attributable carrying amount of goodwill), liabilities, non-controlling interests (including any components of other comprehensive income attributable to them) as an additional gain or loss on disposal. For losses incurred by loss-making subsidiary companies, the Group is required by the revised standard to account for losses attributable to its non-controlling interests even if that results in a deficit balance for the non-controlling interests in the Group's accounts.

HKFRS 3 (Revised) introduces certain changes in the accounting requirements for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results of the Group after the date of its adoption. These changes include, but are not limited to, the new requirements of (a) for partial acquisitions, allowing non-controlling interests to be measured either as their proportionate interests in the net identifiable assets or at their fair value; (b) for step acquisitions, (i) measuring goodwill as the difference at the acquisition date between the fair value of any investment in the business held before the acquisition plus the consideration transferred and the net assets acquired and (ii) recognizing gains or losses from remeasuring to the fair value the interest in the acquiree held by the Group immediately before the business combination; (c) recognizing acquisition-related costs as expenses, rather than including them in goodwill; and (d) recognizing the fair value of contingent considerations at the acquisition date and reflecting the subsequent changes of such contingent considerations either in profit or loss or in other comprehensive income in accordance with the requirements of HKAS 39 "Financial Instruments: Recognition and Measurement".

Amendments to HKAS 17 remove the specific guidance on classifying leasehold land as an operating lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance of HKAS 17 which requires an assessment of whether substantially all the risks and rewards incidental to ownership of a leased asset have been transferred from the lessors to the lessees upon the inception of the leases. The Group has reassessed its leases in Indonesia, previously classified as operating leases, upon the adoption of the amendments. As substantially all the risks and rewards associated with the leases in Indonesia have been transferred to the Group, the leases in Indonesia have been reclassified from operating leases under "Prepaid land premiums" to finance leases under "Property, plant and equipment". The corresponding amortization has also been reclassified to depreciation.

### (a) Effect on the consolidated income statement for the years ended 31 December 2010 and 2009

| Effect of new accounting policies<br>For the year ended 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| Decrease in gain on disposal and dilutions | **(513.4)** | – |
| Decrease in share of profits less losses of associated companies and joint ventures | **(4.5)** | – |
| Decrease in profit for the year | **(517.9)** | – |
| Attributable to: | | |
| Owners of the parent | **(250.4)** | – |
| Non-controlling interests | **(267.5)** | – |
| Decrease in profit for the year | **(517.9)** | – |
| Decrease in earnings per share attributable to owners of the parent (U.S. cents) | | |
| Basic | **(6.45)** | – |
| Diluted | **(6.45)** | – |

(b) **Effect on the consolidated statement of financial position at 31 December 2010 and 2009 and 1 January 2009**

| Effect of new accounting policies<br>US$ millions | **At 31 December 2010** | At 31 December 2009 | At 1 January 2009 |
|---|---|---|---|
| **Assets** | | | |
| Increase in property, plant and equipment | **201.7** | 190.0 | 158.2 |
| Decrease in associated companies and joint ventures | **(3.8)** | – | – |
| Decrease in prepaid land premiums | **(195.8)** | (183.0) | (153.2) |
| Decrease in accounts receivable, other receivables and prepayments (Current) | **(5.9)** | (7.0) | (5.0) |
| Decrease in goodwill | **(19.0)** | – | – |
| | **(22.8)** | – | – |
| **Equity** | | | |
| Increase in differences arising from changes in equities of subsidiary companies | **235.4** | – | – |
| Decrease in retained earnings | **(250.4)** | – | – |
| Decrease in non-controlling interests | **(7.8)** | – | – |
| | **(22.8)** | – | – |

(C) **Impact of Issued but not yet Effective HKFRSs**

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these Consolidated Financial Statements.

| | |
|---|---|
| HKAS 12 Amendments | "Recovery of Underlying Assets"(i) |
| HKAS 24 (Revised) | "Related Party Disclosures"(ii) |
| HKFRS 1 Amendment | "Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters"(iii) |
| HKFRS 1 Amendments | "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"(iv) |
| HKFRS 7 Amendments | "Transfers of Financial Assets"(iv) |
| HKFRS 9 | "Financial Instruments"(v) |
| HK(IFRIC)-Int 14 Amendments | "Prepayments of a Minimum Funding Requirement"(ii) |
| HK(IFRIC)-Int 19 | "Extinguishing Financial Liabilities with Equity Instruments"(iii) |
| Improvements to HKFRSs | "Improvements to HKFRSs 2010"(vi) |

(i) Effective for annual periods commencing on or after 1 January 2012
(ii) Effective for annual periods commencing on or after 1 January 2011
(iii) Effective for annual periods commencing on or after 1 July 2010
(iv) Effective for annual periods commencing on or after 1 July 2011
(v) Effective for annual periods commencing on or after 1 January 2013
(vi) Generally effective for annual periods commencing on or after 1 January 2011, unless otherwise stated in the specific HKFRSs

HKAS 12 Amendments introduce a rebuttable presumption that the carrying amounts of investment properties will be recovered entirely through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liabilities or deferred tax assets shall reflect the tax consequences of recovering the carrying amounts of the investment properties entirely through sale. The presumption is rebutted if an investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

HKAS 24 (Revised) (a) clarifies the definition of a related party as a person or entity that is related to the reporting entity which is preparing its financial statements, (b) simplifies the identification of such relationships and (c) eliminates inconsistencies in application. It also provides a partial exemption of disclosure requirements for government-related entities.

HKFRS 1 Amendment clarifies the first-time adopters of HKFRSs may apply the exemptions for presenting certain comparative information of disclosures for risks arising from financial instruments.

HKFRS 1 Amendments require that if an entity elects to measure assets or liabilities at fair value as the deemed cost in its opening HKFRS statement of financial position because of severe hyperinflation, the entity's first HKFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that is under the situation which has (a) no reliable general price index to all entities with transactions and balances in that currency and (b) no exchangeability between that currency and a relatively stable foreign currency. In addition, the amendments require a first-time adopter to apply the fair value measurement of financial assets or financial liabilities at initial recognition and the derecognition requirements in HKAS 39 "Financial Instruments: Recognition and Measurement" prospectively for transactions occurring on or after the date of the entity's transition to HKFRSs instead of after certain previous fixed dates.

HKFRS 7 Amendments require an entity to disclose certain information that enable users of its financial statements to (a) understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and (b) evaluate the nature of and risks associated with, the entity's continuing involvement in derecognized financial assets.

HKFRS 9 simplifies the many different rules in HKAS 39 "Financial Instruments: Recognition and Measurement" into a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply.

HK(IFRIC)-14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (a) the prepayment for future services and (b) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments.

HK(IFRIC)-Int 19 clarifies that (a) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (b) the equity instruments issued are measured at their fair value and (c) the difference between the carrying amount of the financial liability extinguished and the equity instruments issued is included in the entity's profit or loss for the period.

Improvements to HKFRSs 2010 issued in May 2010 sets out certain amendments to HKFRSs made in response to the International Accounting Standards Board's annual improvement projects, which include certain changes that may result in accounting changes for presentation, recognition or measurement purposes. The key amendments are summarized as follows:

HKAS 1 "Presentation of Financial Statements" Amendments shall be applied for annual periods beginning on or after 1 January 2011. The amendments clarify that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

HKAS 27 "Consolidated and Separate Financial Statements" Amendments shall be applied for annual periods beginning on or after 1 July 2010. The amendments clarify that the consequential amendments from HKAS 27 "Consolidated and Separate Financial Statements" (as revised in 2008) made to HKAS 21 "The Effects of Changes in Foreign Exchange Rates", HKAS 28 "Investments in Associates" and HKAS 31 "Interests in Joint Ventures" shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 (as revised in 2008) is applied earlier.

HKAS 34 "Interim Financial Reporting" Amendments shall be applied for annual periods beginning on or after 1 January 2011. The amendments require an entity to update the relevant information of significant events and transactions presented in the most recent annual financial report in its interim financial report.

HKFRS 3 "Business Combinations" Amendments shall be applied for annual periods beginning on or after 1 July 2010. The amendments (a) clarifies that the amendments to HKFRS 7 "Financial Instruments: Disclosures", HKAS 32 "Financial Instruments: Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 "Business Combinations" (as revised in 2008), (b) limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation and (c) provide guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

HKFRS 7 "Financial Instruments: Disclosures" Amendments shall be applied for annual periods beginning on or after 1 January 2011. The amendments (a) clarify the disclosure regarding the credit risk by class of financial instrument in respect of the maximum exposure and the details of collateral held as security and other credit enhancements and (b) remove the requirements for the disclosure of (i) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated and (ii) an estimate of their fair value of the collateral held by the entity as security and other credit enhancements.

HK(IFRIC)-Int 13 "Customer Loyalty Programmes" Amendment shall be applied for annual periods beginning on or after 1 January 2011. The amendment clarifies that the fair value of award credits can be measured as amount of the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

The Group has not early adopted the above new and revised HKFRSs for the year ended 31 December 2010. The Company has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position and presentation of its Consolidated Financial Statements.

## (D) Summary of Principal Accounting Policies

### (a) Basis of consolidation

*(I) Basis of consolidation from 1 January 2010*

The Consolidated Financial Statements include the financial statements of the Company and its subsidiary companies for the year ended 31 December 2010. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

A subsidiary company is an entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Pursuant to HKAS 27 "Consolidated and Separate Financial Statements", in determining whether a company will be consolidated, potential voting rights that presently are exercisable, where applicable to certain Philippine affiliates of the Company, are taken into account.

Non-controlling interests represent the interests of non-controlling shareholders not held by the Group in the results and net assets of the Company's subsidiary companies.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, being the date on which the Group obtains control, or up to the effective date of disposal, as appropriate. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary company, without a change of control, is accounted for as an equity transaction using the entity concept method.

If the Group loses control over a subsidiary company, it (i) derecognizes the assets (including goodwill) and liabilities of the former subsidiary company at their carrying amounts, (ii) derecognizes the carrying amount of any non-controlling interests in the former subsidiary company, (iii) derecognizes the components of other comprehensive income (e.g., cumulative exchange reserve) recorded in equity attributable to the former subsidiary company, (iv) recognizes the fair value of the consideration received, (v) recognizes the fair value of any investment in the former subsidiary company retained, (vi) recognizes any resulting difference as a gain or loss on disposal in profit or loss, (vii) reclassifies the parent's share of components of the former subsidiary company previously recognized in other comprehensive income (except revaluation reserve) to profit or loss, (viii) transfers the parent's share of the former subsidiary company's revaluation reserve previously recognized in other comprehensive income directly to retained earnings and (ix) transfers the related differences arising from changes in shareholdings of subsidiary companies without a change of control previously recognized as other reserves directly to retained earnings.

The acquisition of subsidiary companies during the year has been accounted for using the acquisition method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Non-controlling interests in the acquirees are measured either at the non-controlling interests' proportionate share of the acquirees' identifiable net assets or at their fair values. All acquisition related costs are recognized as expenses in profit or loss. Contingent consideration is measured at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with HKAS 39 “Financial Instruments: Recognition and Measurement” either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

For step acquisitions, the Group’s previously held equity interests in the acquirees are remeasured to fair value as at the acquisition date through profit or loss.

*(II) Basis of consolidation prior to 1 January 2010*

In comparison to the above-mentioned accounting treatments which were applied on a prospective basis starting 1 January 2010, the following differences applied to the basis of consolidation prior to 1 January 2010:

(i) Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.

(ii) Acquisitions of non-controlling interests without a change of control were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired and the costs directly attributable to the acquisition were recognised in goodwill. For disposals and dilutions of interests in subsidiary companies without a change of control, the difference between the consideration received and the carrying amount of the share of the net assets disposed of for disposal transactions and the changes in the share of net assets for dilution transactions are recognized as gains or losses in the income statement.

(iii) Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost and recognizes the difference between the net proceeds from the sale and the entity’s share of its net assets (including the attributable carrying amount of goodwill) as a gain or loss in the income statement.

(iv) For the acquisition of subsidiary companies, non-controlling interests are measured at the non-controlling interests’ proportionate share of the acquirees’ identifiable net assets. All acquisition related costs were recognized as costs of acquisition. Contingent consideration was recognized if, and only if the entity has present obligations, with likely economic outflows and reliable estimates which were determinable. Subsequent adjustments to contingent consideration within 12 months from business combinations were charged to goodwill except for accretion of interest which was recognized in profit or loss. Subsequent adjustments to contingent considerations after 12 months from business combinations were recognized in profit or loss.

(v) For step acquisitions, they were accounted for as separate steps. Additional acquisitions did not affect previously recognized goodwill.

For business combinations involving entities or businesses under common control (a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory), they are accounted for applying the principles of merger accounting which is consistent with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. The method requires the combined entity recognizing the assets, liabilities and equity of the combining entities or businesses at the carrying amounts (i.e., existing book values from the controlling parties’ perspective) in the consolidated financial statements of the controlling party or parties prior to the common control combination. There is no recognition of any goodwill or excess of the acquirer’s interest in the net fair value of the acquiree’s identified assets, liabilities and contingent liabilities over the cost at the time of the common control combination to the extent of the controlling party’s or parties’ interests.

In the Company’s statement of financial position, investments in subsidiary companies are stated at cost less any provision for impairment losses. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

**(b) Cash and cash equivalents**

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use or pledged.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and with original maturities of three months or less from the date of acquisition, less bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management.

**(c) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method, the weighted average method or the moving average method, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. The cost of goods purchased for resale includes costs incurred in bringing the goods to their present location. Net realizable value is determined on the basis of current anticipated selling prices less estimates of costs to completion and selling expenses.

**(d) Property, plant and equipment**

Freehold land is stated at cost and is not depreciated. Other property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses, calculated on the straight-line basis at annual rates estimated to write off their book values to residual values over their expected useful lives. Details of depreciation rates are set out in Note 12(A) to the Consolidated Financial Statements.

The initial cost of property, plant and equipment comprises its purchase price and any costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes asset retirement obligation, interest on borrowed funds used during the construction period and qualified borrowing costs from foreign exchange losses related to foreign currency denominated liabilities used to acquire such assets. Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalized and depreciated over their expected useful lives to the Group. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

**(e) Plantations**

Plantations, which primarily comprise oil palm and rubber plantations, are stated at fair value less estimated point-of-sale costs. Gains or losses arising on initial recognition of plantations at fair value less estimated point-of-sale costs and from the change in fair value less estimated point-of-sale costs of plantations at each reporting date are included in the income statement for the period in which they arise.

The fair value of the oil palm plantations is estimated by reference to independent professional valuations using the discounted cash flows of the underlying plantations. The expected cash flows from the whole life cycle of the oil palm plantations is determined using the market price of the estimated yield of the fresh fruit bunches (FFB), net of maintenance and harvesting costs, and any costs required to bring the oil palm plantations to maturity. The estimated yield of the oil palm plantations is dependent on the age of the oil palm trees, the location, soil type and infrastructure. The market price of the FFB is largely dependent on the prevailing market price of the crude palm oil (CPO) and palm kernel oil (PKO).

Oil palm trees have an average life that ranges from 20 to 25 years, with the first three to four years as immature and the remaining as mature.

Rubber trees have an average life that ranges from 20 to 25 years, with the first five to six years as immature and the remaining years as mature.

Sugar cane is ready for harvest in 12 months and can be harvested for an average of four years.

### (f) Associated companies

An associated company is an entity, not being a subsidiary company or a joint venture, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over whose management the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

Investments in associated companies are accounted for by the equity method of accounting, less any impairment losses. The Group's investments in associated companies include goodwill (net of any accumulated impairment losses) identified on acquisition. The Group's share of its associated companies' post-acquisition profits and losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Income from associated companies is stated in the consolidated income statement as the Group's share of profits less losses of associated companies. For the share of associated companies' post acquisition movements in reserves recognized in the Group's consolidated reserves, the Group will disclose them, when applicable in the consolidated statement of changes in equity.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

### (g) Joint ventures

The Group has interests in joint ventures which are jointly-controlled entities, whereby the venturers have contractual arrangements that establish joint controls over the economic activities of the entities.

The Group's investments in joint ventures are accounted for by the equity method of accounting, less any impairment losses. The Group's investments in joint ventures include goodwill (net of any accumulated impairment losses) identified on acquisition. The Group's share of its joint ventures' post-acquisition profits and losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Income from joint ventures is stated in the consolidated income statement as the Group's share of profits less losses of joint ventures. For the share of joint ventures' post acquisition movements in reserves recognized in the Group's consolidated reserves, the Group will disclose them, when applicable in the consolidated statement of changes in equity.

Equity accounting is discontinued when the carrying amount of the investment in a joint venture reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the joint ventures.

### (h) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired from business combinations is initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The Group's concession assets represent the fair value of concessions of right granted by governments to charge users of public services provided. The concession assets are amortized using the straight-line method over the term of the concessions. The Group's brands represent the brands for its various milk-related products. The brands are amortized using the straight-line method over their estimated useful lives.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

### (i) Asset retirement obligations

The net present value of legal obligations associated with the retirement of an item of property, plant and equipment that resulted from the acquisition, construction or development and the normal operation of property, plant and equipment is recognized in the period in which it is incurred.

**(j) Income tax**

Income tax comprises current and deferred taxes. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Deferred tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences (with limited exceptions) while deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax assets and unused tax losses (with limited exceptions). The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

**(k) Provisions and contingent liabilities**

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the effect of discounting is material, the amount recognized for a provision is the present value, at the end of the reporting period, of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount, arising from the passage of time, is included in net borrowing costs in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

**(l) Impairment of assets**

An assessment is made at the end of each reporting period as to whether there is any indication of impairment of assets including property, plant and equipment, certain investments, goodwill, other intangible assets and other long-lived assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and value in use.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, then the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss of all assets other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset. However, this is limited and will not give rise to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years.

A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**(m) Accounting for acquisition and disposal**

*(I) Results*

The results of subsidiary or associated companies acquired or disposed of are accounted for from or to the effective date of obtaining or losing control.

*(II) Fair value adjustments*

On the acquisition of a subsidiary company or an interest in an associated company, the acquisition cost is allocated to the fair values of the identifiable assets, liabilities and contingent liabilities acquired.

*(III) Goodwill*

Goodwill represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition. The non-controlling interest in the acquiree is measured either at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired and its amount will be written down for impairment when it is considered necessary. A previously recognized impairment loss for goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognized immediately in the consolidated income statement.

In the case of associated companies and joint ventures, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated statement of financial position.

**(n) Foreign currencies**

*(I) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Consolidated Financial Statements are presented in the currency of United States dollars, which is the Company's functional and presentation currency.

*(II) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement (except for those which will be refunded or billed to customers through billings as approved by governments under service concession arrangements). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*(III) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognized in other comprehensive income. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

*(IV) Statement of cash flows*

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiary companies are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary companies which arise throughout the year are translated into United States dollars at the average exchange rates of the year.

**(o) Turnover and revenue recognition**

Turnover represents the amounts received and receivable from the sale of goods and the rendering of services to third parties, falling within the ordinary activities of the Group's businesses. Turnover from sales is recognized when the ownership of goods sold has been transferred to the buyer. Turnover from services is recognized when it can be measured reliably by reference to stages of completion for the rendering of the said services.

Construction revenue is recognized by reference to the stages of completion. Dividend income is recognized when the Group's right to receive payment has been established. Interest income is recognized as it accrues taking into account the principal amount outstanding and the effective interest rate.

**(p) Segmental information**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker who make decisions about how resources are to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. They are determined before intragroup balances and intragroup transactions are eliminated as part of the consolidation process.

**(q) Leases**

Leases, where substantially all of the risks and rewards of ownership of assets remain with the lessor, are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are recorded in the income statement on the straight-line basis over the lease terms.

Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently recognized as expenses on the straight-line basis over the lease terms.

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, are depreciated over the lease terms and the estimated useful lives of the assets. Finance lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. A finance lease gives rise to a depreciation expense for the asset as well as a borrowing cost for each period. Finance charges are charged directly to current operations. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned by the Group.

**(r) Employee benefits**

*(I) Pension obligations*

The Group operates defined contribution and defined benefit retirement schemes.

Contributions to defined contribution schemes by the Group and employees are calculated as a percentage of the employees' basic salaries. The Group's contributions to defined contribution schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to the contributions vesting fully.

Contributions to defined benefit schemes are determined based on the value of the retirement scheme assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations, and are determined on the basis of actuarial valuations using the projected unit credit method. The costs of defined benefit schemes are charged against profit on a systematic basis so as to be spread over the expected remaining service lives of the employees affected. Actuarial gains and losses are recognized immediately in the income statement as and when they occur.

*(II) Long service payments*

Certain of the Group's employees are eligible for long service payments in the event of the termination of their employment. A provision is recognized in respect of the probable future long service payments expected to be made. The provision is the best estimate of the probable future payments that have been earned by the employees from their service to the Group at the end of the reporting period.

*(III) Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value of the share options at the date at which they are granted. Fair value is determined using an option pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting period until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, based on the best available estimate.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, an expense, as a minimum, is recognized as if the terms had not been modified if the original terms of the award are met. An expense is recognized for any increase in the value of the transactions as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

*(IV) Cash-settled transactions*

For the cost of cash-settled transactions with employees, the Group recognizes the services received and the liability to pay for those services as the employees render services during the vesting period. The liability is measured, initially and at the end of each reporting period until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. Until settled, any changes in fair value at each reporting date will be recognized in the income statement.

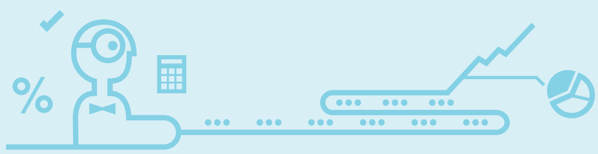
*(V) Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilized by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

**(s) Borrowing costs**

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Other costs include exchange differences on foreign currency borrowings. Exchange differences arising from foreign currency borrowings are included in borrowing costs to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale.



**(t) Financial assets and financial liabilities**

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument and derecognizes a financial asset when the Group no longer controls the contractual rights to the cash flows that comprise the financial instrument which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument have already expired or are passed through to an independent third party. A financial liability (or a part of a financial liability) is derecognized when the obligation is extinguished. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using the trading date accounting, which means the accounting based on the date that the Group commits to purchase or sell the asset.

Financial assets within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, or as derivatives designed as hedging instruments in an effective hedge, as appropriate. Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories.

A financial asset or financial liability can be designated as a financial asset or financial liability at fair value through profit or loss only upon its initial recognition. The Group may use this designation only in the case of a contract containing one or more embedded derivatives (as described below) or when doing so results in more relevant information, because either

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or

(ii) a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

For a contract containing one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss, unless:

(i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

(ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits that holder to prepay the loan for approximately its amortized cost.

Financial assets or financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

After initial recognition, the following financial assets and liabilities are measured at amortized cost using the effective interest method: (i) loans and receivables; (ii) held-to-maturity investments; and (iii) financial liabilities other than liabilities measured at fair value through profit or loss, whereas available-for-sale assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Amortized cost for held-to-maturity investments is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

Investments in unquoted equity securities and derivatives linked thereon are measured at cost.

Amortization of discounts and premiums is taken directly to the consolidated income statement. Changes in the fair value of financial assets and liabilities measured at fair value of (i) all derivatives (except for those eligible for hedge accounting); (ii) other items intended to be actively traded; and (iii) any item designated as “at fair value through profit or loss” at origination, are taken directly to the income statement. Changes in the fair value of available-for-sale financial assets are recognized as other comprehensive income in equity, except for the foreign exchange fluctuations on available-for-sale debt securities and the interest component which is taken directly to net profit or loss for the period based on the asset’s effective yield.

Financial assets and liabilities include financial instruments which may be a primary instrument, such as receivables, payables and equity securities, or a derivative instrument, such as financial options, futures and forwards, interest rate swaps and currency swaps.

A financial instrument is classified as a financial liability or a financial asset or an equity item in accordance with the substance of the contractual arrangement. Financial instruments that contain both liability and equity elements are classified separately as financial liabilities or equity instruments. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and the Group intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

*(I)* *Assets carried at amortized cost*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement.

If, in a subsequent period, the amount of the estimated loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance amount. If a future write-off is later recovered, the recovery is credited to the income statement.

*(II)* *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*(III)* *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

**(u) Derivative instruments**

The Group uses derivative financial instruments such as long-term currency swaps, foreign currency options, interest rate swaps and forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are stated at fair value.

The criteria for a derivative instrument to be classified as a hedge include (i) the hedge transaction is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, (ii) the effectiveness of the hedge can be reliably measured, (iii) there is adequate documentation of the hedging relationships at the inception of the hedge, and (iv) for cash flow hedges, the forecast transaction, which is the subject of the hedge, must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

For the purpose of hedge accounting, hedges are classified as (i) fair value hedges where they hedge the exposure to changes in the fair value of a recognized asset or liability and firm commitment; (ii) cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction or foreign-currency risk in an unrecognized firm commitment or (iii) hedges of a net investment in a foreign operation.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement.

In relation to cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly as other comprehensive income and the ineffective portion is recognized in the consolidated income statement. The gains or losses that are accumulated in other comprehensive income are transferred to the income statement in the same period in which the hedged item affects the profit or loss.

In relation to hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized in other comprehensive income is transferred to the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

**(v) Dividends**

Final dividends proposed by the Directors are recognized as a liability when they have been declared and approved by the shareholders in an annual general meeting.

Interim dividends (including special dividends, if any) are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

For distributions of non-cash assets as dividends to owners of the Company (except for the cases when the Group distributes some of its ownership interests in subsidiary companies but retains control of these subsidiary companies after the distributions), the Group measures the related liabilities at the fair value of the assets to be distributed. The carrying amount of the dividends payable is remeasured at each reporting date and at the settlement date, with any changes recognized directly in equity as adjustments to the amount of the distribution. On settlement of the transactions, the Group recognizes the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liabilities in the income statement.

### (w) Related parties

A party is considered to be related to the Group if:

(I) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(II) the party is an associate;

(III) the party is a joint venture in which the entity is a venturer;

(IV) the party is a member of the key management personnel of the Group;

(V) the party is a close member of the family of any individual referred to in (I) or (IV);

(VI) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (IV) or (V); or

(VII) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### (x) Assets held for sale

Assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable. Assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

## 3. Significant Accounting Judgments and Estimates

The preparation of the Group's Consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### (A) Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have significant effect on the amounts recognized in the Consolidated Financial Statements:

#### (a) Classification of financial assets and financial liabilities

The Group determines the classification of certain assets and liabilities as financial assets and financial liabilities by judging whether they meet the definition of financial assets and financial liabilities set out in HKAS 39 "Financial Instruments: Recognition and Measurement". Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Group's accounting policies set out in Note 2(D)(t).

#### (b) Service concession arrangements

In applying HK(IFRIC)-Int 12 for the service concession arrangements of Maynilad Water Services, Inc. (Maynilad) and Manila North Tollways Corporation (MNTC), the Group has made judgments that these arrangements qualify for the application of the intangible asset model. Details of the Group's accounting policy in respect of intangible assets (other than goodwill) are set out in Note 2(D)(h).

### (B) Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

#### (a) Estimating useful lives and residual values of property, plant and equipment

The Group estimates the useful lives and residual values of its property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives and residual values of the property, plant and equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives and residual values of its property, plant and equipment is based on its collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives and residual values of the Group's property, plant and equipment would increase its recorded depreciation expenses and decrease its non-current assets.

#### (b) Estimating useful lives of brands

The Group estimates the useful lives of the brands for its various milk-related products. The estimated useful lives of the brands are reviewed annually and are updated if expectations differ from previous estimates due to changes in market situations or other limits. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the Group's brands would increase its recorded amortization expenses and decrease its other intangible assets.

#### (c) Assets impairment

HKFRS requires that an impairment review should be performed when certain impairment indication is present. In case of goodwill, such assets are subject to yearly impairment test and whenever there is an indication that such assets may be impaired.

Purchase accounting requires extensive use of accounting estimates to allocate the purchase price to the fair market values of the assets and liabilities purchased, including intangible assets and contingent liabilities. The Group's business acquisitions have resulted in goodwill, which is subject to a periodic impairment test.

Determining the fair value of property, plant and equipment, plantations, and intangible assets (other than goodwill) at the date of acquisition of business, which requires the determination of future cash flows expected to be generated from the continued use (i.e., value in use) and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that property, plant and equipment associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on its financial condition and results of operations.

The preparation of estimated future cash flows involves significant estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in its assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment charges under Hong Kong GAAP.

#### (d) Deferred tax assets

The Group reviews the carrying amounts at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its recognized deferred tax assets to be utilized.

#### (e) Financial assets and liabilities

HKFRS requires that the Group carries certain of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect directly the Group's consolidated profit or loss and equity.

**(f) Estimating allowances for accounts receivable**

The Group estimates the allowance for accounts receivable based on two methods. The amounts calculated using each of these methods are combined to determine the total amount it provides. Firstly, the Group evaluates specific accounts where it has information that certain customers are unable to meet their financial obligations. In these cases, the Group estimates, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific provisions for customers against amounts due to reduce its receivable amounts that the Group expects to collect. These specific provisions are re-evaluated and adjusted as additional information received affects the amounts estimated. Secondly, a provision is established as a certain percentage of receivables. This percentage is based on a collective assessment of historical collection, write-off, experience and changes in its customer payment terms.

The amounts and timing of recorded expenses for any period would differ if the Group utilized different estimates. An increase in the Group's allowance for accounts receivable would increase its recorded operating expenses and decrease its assets.

**(g) Estimating allowances for inventories**

The Group estimates the allowance for inventories based on the best available facts and circumstances, including but not limited to, the inventories' own conditions (i.e., whether they are damaged or become wholly or partially obsolete), their market selling prices, estimated costs of completion and estimated costs to be incurred for their sale. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated.

**(h) Pension and other retirement benefits**

The determination of the Group's obligation and cost for defined benefits is performed by independent actuaries engaged by the Group and dependent on the selection of certain assumptions used by them in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets, rates of salary and pension increase and average remaining working lives of employees. In accordance with Hong Kong GAAP, actual results that differ from the Group's assumptions are recognized immediately in the income statement as and when they occur. While the Group believes that the actuaries' assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the Group's assumptions may materially affect its pension and other retirement obligations.

**(i) Measurement of fair value of plantations**

HKFRS requires that the Group carries its plantations at fair value less estimated point-of-sale costs, which requires extensive use of accounting estimates. The determination of such fair value less estimated point-of-sale costs is performed by independent valuers engaged by the Group. Significant components of fair value measurement were determined using assumptions including the average life of plantations, yield per hectare, plantation area and discount rates. The amount of changes in fair value would differ if the Group utilized different assumptions. Any changes in fair value of these plantations would affect directly the Group's profit or loss and equity.

**(j) Equity-settled share option expense**

HKFRS requires that the Group measures its share options at fair value at the date at which they are granted, which requires extensive use of accounting estimates. The determination of such fair value is performed by an independent valuer engaged by the Group. Significant components of fair value measurement were determined using assumptions including expected volatility and dividend yield and the average risk-free interest rate. The amount of fair value determined at the date of which the options are granted would differ if the Group utilized different assumptions. Any changes in fair value of the share options determined at the date of which they are granted would affect directly the Group's profit or loss in subsequent periods when these fair values are recognized as expenses over the share options' vesting period.

## 4. Turnover and Segmental Information

| US$ millions | 2010 | 2009 |
|---|---|---|
| **Turnover** | | |
| Sale of goods | **4,118.8** | 3,511.8 |
| Rendering of services | **521.4** | 413.8 |
| **Total** | **4,640.2** | 3,925.6 |

### Segmental Information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision maker who makes decisions about how resources are to be allocated to the segment and assesses its performance, and for which discrete financial information is available to him.

The Board of Directors considers the business from both product or service and geographical perspectives. From the product or service perspective, the Group business interests are divided into four main segments, which are telecommunications, infrastructure, consumer food products and natural resources. Geographically, the Board of Directors considers the businesses of the Group are operating in the Philippines and Indonesia. Details of the Group's principal investments are provided on page 164.

The Board of Directors assesses the performance of the operating segments based on a measure of recurring profit. This basis measures the profit attributable to owners of the parent excluding the effects of foreign exchange and derivative gains/losses, gain/loss on changes in fair value of plantations and non-recurring items. Non-recurring items represent certain items, through occurrence or size, which are not considered as usual operating items.

The revenue, results and other information for the years ended 31 December 2010 and 2009, and total assets and total liabilities at 31 December 2010 and 2009 regarding the Group's reportable businesses are as follows.

### By Principal Business Activity – 2010

| | The Philippines | | | Indonesia | | |
|---|---|---|---|---|---|---|
| For the year ended/at 31 December<br>US$ millions | Telecom-munications | Infrastructure | Natural Resources | Consumer Food Products | Head Office | **2010 Total** |
| **Revenue** | | | | | | |
| Turnover | – | 412.2 | – | 4,228.0 | – | **4,640.2** |
| **Results** | | | | | | |
| Recurring profit | 224.1 | 46.9 | 30.9 | 172.1 | (71.9) | **402.1** |
| **Assets and Liabilities** | | | | | | |
| Associated companies and joint ventures | 1,078.9 | 751.5 | 606.0 | 3.0 | – | **2,439.4** |
| Other assets | – | 2,199.5 | – | 5,999.8 | 275.4 | **8,474.7** |
| Total assets | 1,078.9 | 2,951.0 | 606.0 | 6,002.8 | 275.4 | **10,914.1** |
| Borrowings | – | 741.9 | – | 1,593.4 | 1,103.9 | **3,439.2** |
| Other liabilities | – | 608.6 | – | 1,144.0 | 110.2 | **1,862.8** |
| Total liabilities | – | 1,350.5 | – | 2,737.4 | 1,214.1 | **5,302.0** |
| **Other Information** | | | | | | |
| Depreciation and amortization | – | (57.0) | – | (134.3) | (6.8) | **(198.1)** |
| Interest income | – | 12.7 | – | 18.1 | 1.1 | **31.9** |
| Interest expenses | – | (92.8) | – | (129.2) | (52.9) | **(274.9)** |
| Share of profits less losses of associated companies and joint ventures | 242.8 | 11.2 | 32.9 | (2.2) | 0.2 | **284.9** |
| Taxation | – | (2.3) | – | (181.9) | (19.0) | **(203.2)** |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | – | 243.6 | – | 294.7 | – | **538.3** |

### By Principal Business Activity – 2009

| For the year ended/at 31 December<br>US$ millions | The Philippines<br>Telecom-<br>munications | <br>Infrastructure | <br>Natural<br>Resources | Indonesia<br>Consumer<br>Food<br>Products | <br>Head<br>Office | <br>2009<br>Total |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Turnover | – | 336.9 | – | 3,588.7 | – | 3,925.6 |
| **Results** | | | | | | |
| Recurring profit | 205.3 | 33.0 | 7.7 | 89.2 | (48.6) | 286.6 |
| **Assets and Liabilities** | | | | | | |
| Associated companies and joint ventures | 1,050.8 | 568.8 | 441.2 | 3.7 | 3.5 | 2,068.0 |
| Other assets | – | 2,214.1 | – | 4,882.1 | 233.1 | 7,329.3 |
| Total assets | 1,050.8 | 2,782.9 | 441.2 | 4,885.8 | 236.6 | 9,397.3 |
| Borrowings | – | 926.1 | – | 1,837.7 | 921.5 | 3,685.3 |
| Other liabilities | – | 571.4 | – | 1,008.7 | 92.8 | 1,672.9 |
| Total liabilities | – | 1,497.5 | – | 2,846.4 | 1,014.3 | 5,358.2 |
| **Other Information** | | | | | | |
| Depreciation and amortization (Restated) | – | (68.8) | – | (116.8) | (0.4) | (186.0) |
| Interest income | – | 10.5 | – | 15.6 | 1.4 | 27.5 |
| Interest expenses | – | (83.9) | – | (149.0) | (24.9) | (257.8) |
| Share of profits less losses of associated companies and joint ventures | 210.9 | 9.1 | 12.5 | 0.3 | 0.6 | 233.4 |
| Taxation | – | 1.0 | – | (132.5) | (12.2) | (143.7) |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | – | 162.2 | – | 363.4 | 2.3 | 527.9 |

A reconciliation between profit before taxation as shown in the consolidated income statement and recurring profit is as follows.

| US$ millions | **2010** | 2009 |
|---|---|---|
| Profit before taxation | | |
| - Continuing operations | **978.7** | 804.0 |
| - A discontinued operation | **–** | 0.1 |
| Exclusion of: | | |
| - Foreign exchange and derivative gains (Note 9) | **(11.3)** | (75.2) |
| - Gain on changes in fair value of plantations (Note 6) | **(34.0)** | (60.2) |
| - Non-recurring items | **37.0** | (49.8) |
| Deduction of attributable taxation and non-controlling interests | **(568.3)** | (332.3) |
| **Recurring Profit** | **402.1** | 286.6 |

## 5. Net Borrowing Costs

| US$ millions | 2010 | 2009 |
|---|---|---|
| Bank loans and other loans | | |
| - Wholly repayable within five years | **205.8** | 206.2 |
| - Not wholly repayable within five years | **90.0** | 67.0 |
| Less: Borrowing costs capitalized in | | |
| - Property, plant and equipment | **(13.1)** | (7.2) |
| - Plantations | **(7.0)** | (7.5) |
| - Other intangible assets | **(0.8)** | (0.7) |
| **Total Borrowing Costs** | **274.9** | 257.8 |
| Less: Interest income | **(31.9)** | (27.5) |
| **Net Borrowing Costs** | **243.0** | 230.3 |

The capitalization rate of borrowings costs for 2010 was 8.8% (2009: 10.5%).

## 6. Profit Before Taxation

| US$ millions | Notes | 2010 | 2009 (Restated) |
|---|---|---|---|
| **Profit Before Taxation is Stated after (Charging)/Crediting** [i] | | | |
| Cost of inventories sold | | **(2,079.6)** | (1,959.1) |
| Employees' remuneration | 34(A) | **(463.1)** | (376.5) |
| Cost of services rendered | | **(176.3)** | (140.5) |
| Depreciation | 12 | **(119.0)** | (102.3) |
| Amortization of other intangible assets | 17 | **(71.9)** | (83.7) |
| Operating lease rentals | | | |
| - Land and buildings | | **(10.6)** | (13.7) |
| - Hire of plant and equipment | | **(8.6)** | (4.4) |
| Auditors' remuneration | | | |
| - Audit services | | **(3.5)** | (2.1) |
| - Other services [ii] | | **(0.8)** | (0.3) |
| Impairment losses | | | |
| - Goodwill [iii] | 16 | **(1.2)** | – |
| - Accounts receivable [iv] | 18(C) | **(0.2)** | (7.3) |
| - Property, plant and equipment | 12 | **–** | (5.1) |
| (Loss)/gain on dilution and divestment of interest in an associated company | | **(0.4)** | 1.2 |
| Gain on changes in fair value of plantations | 13 | **34.0** | 60.2 |
| Gain on disposal of an associated company | | **21.2** | – |
| Foreign exchange and derivative gains, net | 9 | **9.5** | 72.6 |
| Preferred shares dividend income from a joint venture | | **8.3** | – |
| Gain/(loss) on sale of property, plant and equipment | | **5.8** | (9.6) |
| Gain on disposal of a joint venture | | **1.8** | – |
| Gain/(loss) on change in fair value of assets held for sale | | **0.8** | (2.8) |
| Dividend income from available-for-sale assets | | **0.1** | 0.1 |
| Gain on dilution of interest in subsidiary companies | | **–** | 84.7 |
| Realized gain on sale of available-for-sale assets | | **–** | 3.6 |

(i) Includes amounts (charged)/credited in respect of a discontinued operation
(ii) Excludes an amount of US$1.2 million (2009: Nil) which has been charged directly to equity under differences arising from changes in equities of subsidiary companies
(iii) Included in other operating (expenses)/income, net
(iv) Included in distribution costs

## 7. Taxation

No Hong Kong profits tax (2009: Nil) has been provided as the Group had no estimated assessable profits (2009: Nil) in Hong Kong for the year. 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.

| US$ millions | 2010 | 2009 |
|---|---|---|
| **Subsidiary Companies – Overseas** | | |
| Current taxation (Note 27) | **198.2** | 144.7 |
| Deferred taxation (Note 20) | **5.0** | (1.0) |
| **Total** | **203.2** | 143.7 |

Included in the share of profits less losses of associated companies and joint ventures is taxation of US$99.8 million (2009: US$84.3 million) and which is analyzed as follows.

| US$ millions | 2010 | 2009 |
|---|---|---|
| **Associated Companies and Joint Ventures – Overseas** | | |
| Current taxation | **90.5** | 78.3 |
| Deferred taxation | **9.3** | 6.0 |
| **Total** | **99.8** | 84.3 |

A reconciliation between profit before taxation multiplied by the applicable tax rates and the taxation amount as shown in the consolidated income statement is as follows.

| US$ millions | 2010 | % | 2009 | % |
|---|---|---|---|---|
| **Profit Before Taxation** | **978.7** | | 804.0 | |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **268.4** | **27.4** | 245.0 | 30.5 |
| Tax effect of: | | | | |
| - Non-deductible expenses | **8.3** | **0.8** | 0.9 | 0.1 |
| - Income not subject to tax | **(40.1)** | **(4.1)** | (24.9) | (3.1) |
| - Share of profits less losses of associated companies and joint ventures | **(51.6)** | **(5.2)** | (32.3) | (4.0) |
| - Others | **18.2** | **1.9** | (45.0) | (5.6) |
| **Taxation** | **203.2** | **20.8** | 143.7 | 17.9 |

## 8. A Discontinued Operation

Following a strategic review of MPIC's businesses which focus on core infrastructure, MPIC's directors decided in late 2008 to divest its interest in the property business, Landco Pacific Corporation (Landco), which was operated by MPIC. At 31 December 2008, the Group's investment in Landco was classified as a disposal group held for sale. In June 2009, MPIC disposed of 17.0% interest in Landco for Pesos 203 million (US$4.2 million), thereby reducing its interest in Landco from 51.0% to 34.0%. The Group's remaining 34.0% interest in Landco after this transaction was classified as assets held for sale. In August 2010, MPIC further disposed of 15.0% interest in Landco for Pesos 145 million (US$3.2 million) and reduced its interest in Landco from 34.0% to 19.0%. The Group's remaining 19.0% interest in Landco after this transaction was classified as available-for-sale assets.

## 9. Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent includes US$2.8 million (2009: US$23.7 million) of net foreign exchange and derivative gains, which represent the foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and payables and the changes in the fair values of derivatives, US$7.6 million (2009: US$10.0 million) of gain on changes in fair value of plantations and US$8.8 million of net non-recurring losses (2009: US$81.3 million of net non-recurring gains).

**Analysis of Foreign Exchange and Derivative Gains**

| US$ millions | 2010 | 2009 |
|---|---|---|
| **Foreign Exchange and Derivative Gains** | | |
| – Subsidiary companies (Note 6) | **9.5** | 72.6 |
| – Associated companies and joint ventures | **1.8** | 2.6 |
| Subtotal (Note 4) | **11.3** | 75.2 |
| Attributable to taxation and non-controlling interests | **(8.5)** | (51.5) |
| **Total** | **2.8** | 23.7 |

The non-recurring losses of US$8.8 million for 2010 mainly represents the Group's share of Meralco's non-recurring losses, and provision and write-off of certain assets, partly offset by the Group's gain on disposal of its interest in an associated company. The non-recurring gains of US$81.3 million for 2009 mainly represent gains on dilution of the Group's interest in MPIC.

Included in the profit attributable to owners of the parent for the year ended 31 December 2010 is a profit of US$55.7 million (2009: US$5.1 million) attributable to the Company.

## 10. Earnings Per Share Attributable to Owners of the Parent

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the parent of US$403.7 million (2009: US$401.6 million), and the weighted average number of ordinary shares of 3,880.4 million (2009: 3,428.5 million) in issue during the year.

The calculation of diluted earnings per share is based on: (a) the profit for the year attributable to owners of the parent of US$403.7 million (2009: US$401.6 million) reduced by the dilutive impacts of (i) US$5.8 million (2009: Nil) in respect of the conversion of convertible bonds issued by a subsidiary company and (ii) US$4.3 million (2009: US$6.8 million) in respect of the exercise of share options issued by its subsidiary and associated companies and (b) a share base equal to the aggregate of the weighted average number of ordinary shares of 3,880.4 million (2009: 3,428.5 million) in issue during the year (as used in the basic earnings per share calculation) and the weighted average number of ordinary shares of 24.8 million (2009: 50.6 million) assumed to have been issued at no consideration on the deemed exercise of all share options of the Company during the year.

## 11. Ordinary Share Dividends

| | U.S. cents per ordinary share | | US$ millions | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Interim | **0.77** | 0.51 | **29.9** | 16.5 |
| Special | **0.24** | – | **9.5** | – |
| Proposed final | **1.54** | 1.03 | **60.0** | 39.6 |
| **Total** | **2.55** | 1.54 | **99.4** | 56.1 |

In connection with the global offering carried out by PT Indofood CBP Sukses Makmur Tbk (ICBP), a subsidiary company of Indofood, in October 2010, the Company was required, under Practice Note 15 (PN15) of the Listing Rules, to subscribe and distribute a certain number of new ICBP shares to its shareholders. For the purpose of meeting the requirement of PN15, the Company subscribed for 17,492,500 ICBP shares which represented 1.5% of the total number of offered shares and declared a special dividend, payable to shareholders by way of a distribution in specie on the basis of eight ICBP shares for every 2,000 ordinary shares of the Company held by them. Each qualified shareholder holding 2,000 ordinary shares or more of the Company might elect to receive cash in lieu of the distributable ICBP shares as calculated by making reference to the ICBP offer price of Rupiah 5,395 (U.S. 60.6 cents or HK$4.70) per share. The special dividend was distributed to the shareholders on 6 December 2010.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. Property, Plant and Equipment

| US$ millions | Land and buildings | Machinery, equipment and vessels | **Consolidated** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2010 | | | |
| – As previously reported | 391.2 | 1,288.8 | **1,680.0** |
| – Effect of adoption of HKAS 17 | 233.1 | – | **233.1** |
| – As restated | 624.3 | 1,288.8 | **1,913.1** |
| Exchange translation | 23.4 | 51.5 | **74.9** |
| Additions | 3.0 | 220.0 | **223.0** |
| Acquisition of subsidiary companies (Note 32(E)) | 12.4 | 7.2 | **19.6** |
| Disposals | (1.6) | (11.4) | **(13.0)** |
| **At 31 December 2010** | 661.5 | 1,556.1 | **2,217.6** |
| **Accumulated Depreciation and Impairment** | | | |
| At 1 January 2010 | | | |
| – As previously reported | 116.1 | 504.9 | **621.0** |
| – Effect of adoption of HKAS 17 | 43.1 | – | **43.1** |
| – As restated | 159.2 | 504.9 | **664.1** |
| Exchange translation | 5.3 | 18.3 | **23.6** |
| Charge for the year (Note 6) | 24.3 | 94.7 | **119.0** |
| Disposals | (0.6) | (7.8) | **(8.4)** |
| **At 31 December 2010** | **188.2** | **610.1** | 798.3 |
| **Net Book Amount at 31 December 2010** | **473.3** | **946.0** | 1,419.3 |

| US$ millions | Land and buildings | Machinery, equipment and vessels | Consolidated |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2009 | | | |
| – As previously reported | 289.8 | 976.5 | 1,266.3 |
| – Effect of adoption of HKAS 17 | 187.5 | – | 187.5 |
| – As restated | 477.3 | 976.5 | 1,453.8 |
| Exchange translation | 84.5 | 174.3 | 258.8 |
| Additions | 64.2 | 170.9 | 235.1 |
| Disposals | (1.7) | (32.9) | (34.6) |
| **At 31 December 2009** | | | |
| – As previously reported | 391.2 | 1,288.8 | 1,680.0 |
| – Effect of adoption of HKAS 17 | 233.1 | – | 233.1 |
| – As restated | 624.3 | 1,288.8 | 1,913.1 |
| **Accumulated Depreciation and Impairment** | | | |
| At 1 January 2009 | | | |
| – As previously reported | 84.7 | 373.2 | 457.9 |
| – Effect of adoption of HKAS 17 | 29.4 | – | 29.4 |
| – As restated | 114.1 | 373.2 | 487.3 |
| Exchange translation | 20.5 | 68.3 | 88.8 |
| Charge for the year (Note 6) | 25.5 | 76.8 | 102.3 |
| Impairment (Note 6) | – | 5.1 | 5.1 |
| Disposals | (0.9) | (18.5) | (19.4) |
| **At 31 December 2009** | | | |
| – As previously reported | 116.1 | 504.9 | 621.0 |
| – Effect of adoption of HKAS 17 | 43.1 | – | 43.1 |
| – As restated | 159.2 | 504.9 | 664.1 |
| **Net Book Amount at 31 December 2009** | | | |
| – As previously reported | 275.1 | 783.9 | 1,059.0 |
| – Effect of adoption of HKAS 17 | 190.0 | – | 190.0 |
| – As restated | 465.1 | 783.9 | 1,249.0 |

(A) The principal annual rates of depreciation:

| | |
|---|---|
| Freehold land | Nil |
| Freehold buildings | 2.0% to 20.0% |
| Leasehold land under finance leases | Over the lease terms |
| Leasehold buildings | Lesser of period of lease, and 2.5% to 20.0% |
| Machinery, equipment and vessels | 4.0% to 50.0% |

(B) The land and buildings are freehold and leasehold properties held outside Hong Kong.

(C) The Group's land included in property, plant and equipment with a net carrying amount of US$201.7 million (2009: US$190.0 million) is situated in Indonesia and are generally held under medium term leases with lease terms of between 10 and 50 years.

(D) Property, plant and equipment with a net book amount of US$31.6 million (2009: US$59.1 million) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

## 13. Plantations

| US$ millions | Consolidated 2010 | 2009 |
|---|---|---|
| At 1 January | **1,009.2** | 744.5 |
| Exchange translation | **50.2** | 138.9 |
| Additions | **72.4** | 68.7 |
| Disposal | **(0.3)** | (0.6) |
| Gain on changes in fair value less estimated point-of-sale costs, net (Note 6) | **34.0** | 60.2 |
| Reclassification[(i)] | **(2.9)** | (2.5) |
| **At 31 December** | **1,162.6** | 1,009.2 |

(i) To property, plant and equipment and other non-current assets

Physical measurement of oil palm, rubber and other plantations at 31 December is as follows.

| Hectares | Consolidated 2010 | 2009 |
|---|---|---|
| Oil palm | | |
| - Mature plantations | **155,400** | 132,560 |
| - Immature plantations | **49,664** | 61,053 |
| Rubber | | |
| - Mature plantations | **17,556** | 17,263 |
| - Immature plantations | **4,472** | 4,475 |
| Sugar cane, cocoa, tea and others | | |
| - Mature plantations | **11,983** | 6,995 |
| - Immature plantations | **3,032** | 5,375 |
| **Total** | **242,107** | 227,721 |

(A) The Group's plantations mainly represent palm trees and rubber trees owned by Indofood. The palm trees are planted for the production of FFB, which are used in the production of CPO and PKO. The rubber trees are planted for the production of cup lump. The fair values of oil palm plantations are determined by an independent valuer, PT Asian Appraisal Indonesia, using the discounted future cash flows of the underlying plantations. The expected future cash flows of the oil palm plantations are determined using the forecast market price of FFB which is largely dependent on the projected selling prices of CPO and PKO in the market. The fair values of rubber plantations are determined by an independent valuer, PT Asian Appraisal Indonesia, using the discounted future cash flows of the underlying plantations. The expected future cash flows of the rubber plantations are determined using the forecast market price of cup lump which is based on the projected selling price of Rubber Smoke Sheet 1 (RSS1) and other rubber products of the Group. Significant assumptions made in determining the fair value of the plantations are:

(a) No new planting/re-planting activities are assumed.

(b) The palm trees have an average life that ranges from 20 to 25 years, with the first three to four years as immature and the remaining years as mature. The rubber trees have an average life of that ranges from 20 to 25 years, with the first five to six years as immature and the remaining years as mature. Sugar cane is ready for harvest in 12 months and can be harvested for an average of 4 years.

(c) The yield per hectare of palm trees is based on guidelines from the Indonesian Oil Palm Research Institute which varies with the average age of palm trees. The yield per hectare of rubber trees is based on estimation made by Indofood's agronomists and reviewed by an independent valuer.

(d) The discount rates of 18.2% (2009: 19.2%), 17.7% (2009: 18.6%) and 11.7% (2009: 14.2%), which represent the respective asset specific rates for Indofood's palm trees, rubber trees and sugar cane plantation operations, were applied in the discounted cash flow calculations.

(e) The projected selling price of CPO over the projection period is based on consensus of reputable indepedent forecasting service firms for the short-term period and World Bank forecasts for the remaining projection period (2009: World Bank forecasts). The projected selling price of RSS1 and other rubber product over the projected period is based on World Bank forecasts and actual historical selling prices of the Group. The projected selling price of sugar (2009: sugar cane) in 2010 and 2009 over the projection period is based on actual historical selling prices of the Group and World Bank forecasts.

(B) During 2010, Indofood's palm plantations produced 2.6 million tonnes (2009: 2.6 million tonnes) of FFB, rubber plantations produced 25.1 thousand tonnes (2009: 25.7 thousand tonnes) of cup lump and sugar cane plantations produced 429.8 thousand tonnes (2009: 295.9 thousand tonnes) of sugar cane. The fair values of FFB and rubber harvested during 2010, determined at the point of harvest, amounted to US$312.2 million (2009: US$253.5 million) and US$49.6 million (2009: US$40.1 million), respectively.

(C) Plantations with a net book amount of US$52.7 million (2009: US$59.4 million) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

## 14. Subsidiary Companies

| | Company | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Unlisted shares at cost | **1,128.3** | 1,128.3 |
| Less provision for impairment loss | **(122.1)** | (132.1) |
| **Total** | **1,006.2** | 996.2 |

The Company's listed subsidiary companies are held through intermediate holding companies.

(A) The amounts due from subsidiary companies are unsecured, bear interest at rates ranging from 0% to 3.3% per annum (2009: 0% to 3.3% per annum) and are repayable within one year. The carrying value of the Company's amounts due from subsidiary companies approximates to their fair value.

(B) The amounts due to subsidiary companies are unsecured, bear interest at rates ranging from 0% to 1.7% per annum (2009: 0% to 2.9% per annum) and are repayable within one year. The carrying value of the Company's amounts due to subsidiary companies approximates to their fair value.

(C) The loans from subsidiary companies are unsecured, bear interest at rates ranging from 1.4% to 7.4% per annum (2009: 1.4% to 2.9% per annum) and are not repayable within one year. The carrying value of the Company's loans from subsidiary companies approximates to their fair value.

(D) Details of the principal subsidiary companies which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on page 164.

## 15. Associated Companies and Joint Ventures

| | Associated companies | | Joint ventures | | **Consolidated** | |
|---|---|---|---|---|---|---|
| US$ millions | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Shares, at cost | | | | | | |
| - Listed | **2,447.9** | 2,791.9 | **–** | – | **2,447.9** | 2,791.9 |
| - Unlisted | **73.5** | 91.7 | **706.6** | 10.5 | **780.1** | 102.2 |
| Share of post-acquisition reserves (Note 30) | **(772.5)** | (824.5) | **(16.1)** | (1.6) | **(788.6)** | (826.1) |
| **Total** | **1,748.9** | 2,059.1 | **690.5** | 8.9 | **2,439.4** | 2,068.0 |

(A) At 31 December 2010, both the listed and unlisted investments were located outside Hong Kong.

(B) At 31 December 2010, the market valuation of listed investments was US$3,717.7 million (2009: US$4,220.1 million) based on quoted market prices and the net dividends received during 2010 amounted to US$238.2 million (2009: US$210.6 million).

(C) Details of the Group's principal associated companies, PLDT and Philex, which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on page 164.

(D) PLDT was incorporated under the laws of the Philippines on 28 November 1928 to provide telephone services in the Philippines. PLDT's charter was initially limited to a period of 50 years but has since been extended twice for 25 years each, the last extension being for an additional 25-year period ending in 2028. Under its amended charter, which became effective on 24 August 1991, PLDT is authorized to provide virtually every type of telecommunication service, both within the Philippines and between the Philippines and other countries. PLDT operates under the jurisdiction of the Philippine National Telecommunications Commission which jurisdiction extends, among other things, to approving major services offered by PLDT and certain rates charged by PLDT.

(E) Philex was incorporated under the laws of the Philippines in 1995 to engage in mining activities. Philex is primarily engaged in large-scale exploration, development and utilization of mineral resources. Philex has operated for the past 52 years at the deposit at Padcal (Tuba Benguet Province, Island of Luzons) and owns the deposits at Boyongan and Bayugo (Surogao del Norte, the Northern of Mindanao) (the Silangan Project), which is currently under the development stage, for producing gold, copper and silver as its principal products.

(F) Meralco was incorporated under the laws of the Philippines in 1903 and granted a franchise to provide electric power distribution services in the Philippines. In June 2003, Meralco was granted a new 25-year franchise to construct, operate, and maintain an electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in Batangas, Laguna, Pampanga, and Quezon. Meralco is subject to the rate-making regulations and regulatory policies of the Energy Regulatory Commission.

In September 2009, MPIC and PLDT Communications and Energy Ventures, Inc. (PCEV) (formerly known as Philipino Telephone Corporation (Piltel)) (an indirect subsidiary company of PLDT), which owned approximately 14.5% and 20% equity interests in Meralco in October 2009, entered into an agreement (Meralco Shareholders' Agreement) to formalize their arrangement to "vote as one" with regard to their combined holdings of shares of Meralco. The salient provisions of the Meralco Shareholders' Agreement are that (a) MPIC and PCEV will pool their votes in the general meetings of the shareholders of Meralco for the election of nominees to the board of Meralco, and MPIC will always have at least one nominee director (as entitled to and in proportionate to its shareholding in Meralco), (b) MPIC and PCEV undertake to always consult with each other and arrive at a common position (hence, casting a common vote) on all matters in respect of their capacity as shareholders of Meralco and (c) MPIC and PCEV will procure their respective nominee directors to always vote as a bloc for all matters in every board meeting of Meralco (the board of Meralco has a total of 11 board members, of which MPIC and PCEV are represented by one member and two members, respectively). Based on the provisions in the Meralco Shareholders' Agreement, notwithstanding that MPIC had less than a 20% equity interest in Meralco, MPIC accounted for Meralco as an associated company in view of the significant influence MPIC had in Meralco during October 2009 to March 2010.

On 1 March 2010, MPIC, PCEV and Beacon Electric Asset Holdings, Inc. (Beacon Electric) (a special purpose vehicle set up with the sole purpose of holding shares in Meralco, which is currently owned by MPIC and PCEV on a joint basis) entered into an Omnibus Agreement to restructure their shareholdings in Meralco. Under the Omnibus Agreement, (a) MPIC and PCEV would consolidate their interests in Meralco of approximately 14.5% and 13.7%, respectively, under Beacon Electric; thus giving Beacon Electric an approximately 28.2% interest in Meralco and (b) PCEV would acquire a 50% interest in Beacon, which would in turn become a 50:50 joint venture between MPIC and PCEV. Under the Omnibus Agreement, MPIC and PCEV had agreed to define their agreement in respect of, amongst other matters, the capitalization, organization, conduct of business and the extent of their participation in the affairs of Beacon Electric and through Beacon Electric, their respective involvement in Meralco. In addition, in March 2010, Beacon Electric acquired an approximately 6.6% additional interest in Meralco.

As a result of the consolidation of the foregoing interests of MPIC and PCEV in Meralco through Beacon Electric, a 50:50 joint venture between MPIC and PCEV, each of MPIC and PCEV accounts for Beacon Electric/Meralco on its respective books using the equity method.

(G) Additional financial information in respect of the Group's major associated companies, PLDT, Philex and Meralco, as prepared under Hong Kong GAAP, is set out below.

| | PLDT | | Philex | | Meralco | |
|---|---|---|---|---|---|---|
| For the year ended/at 31 December<br>US$ millions | **2010** | 2009 | **2010** | 2009 | **2010** | 2009[(i)] |
| **Operating Results** | | | | | | |
| Turnover | **3,158.1** | 3,046.7 | **296.7** | 204.2 | **5,308.1** | 840.1 |
| Profit before taxation | **1,235.6** | 1,123.1 | **103.4** | 60.8 | **242.0** | 28.0 |
| Profit after taxation | **917.8** | 823.1 | **70.5** | 48.1 | **171.0** | 12.2 |
| **Profit for the Year** | **916.9** | 816.6 | **71.6** | 50.1 | **159.0** | 10.5 |
| **Net Assets** | | | | | | |
| Current assets | **1,400.4** | 1,392.7 | **174.3** | 107.1 | **1,218.2** | 981.4 |
| Non-current assets | **5,049.4** | 4,805.2 | **576.9** | 534.9 | **3,504.4** | 3,359.3 |
| **Total Assets** | **6,449.8** | 6,197.9 | **751.2** | 642.0 | **4,722.6** | 4,340.7 |
| Current liabilities | **(1,878.2)** | (1,602.1) | **(52.7)** | (25.0) | **(1,006.8)** | (925.3) |
| Non-current liabilities and provisions | **(2,344.4)** | (2,468.0) | **(130.9)** | (124.6) | **(2,016.5)** | (1,787.2) |
| **Total Liabilities** | **(4,222.6)** | (4,070.1) | **(183.6)** | (149.6) | **(3,023.3)** | (2,712.5) |
| Non-controlling interests | **(7.2)** | (11.9) | **(4.7)** | (15.2) | **(103.9)** | (81.7) |
| **Net Assets** | **2,220.0** | 2,115.9 | **562.9** | 477.2 | **1,595.4** | 1,546.5 |

(i) Information in respect of Meralco only relates to 2 October 2009 (date becoming an associated company of the Group) and after.

(H) The Group has discontinued the recognition of its share of losses of Prime Media Holdings, Inc., an associated company, because the share of losses of this associated company fully eroded the Group's investment. The amounts of the Group's unrecognized share of losses of this associated company for the current year and cumulatively were US$0.1 million (2009: US$0.1 million) and US$8.9 million (2009: US$8.8 million), respectively.

## 16. Goodwill

| US$ millions | Consolidated 2010 | 2009 |
|---|---|---|
| At 1 January | **775.2** | 675.6 |
| Adjustment for acquisition in the prior year | **–** | (0.7) |
| Exchange translation | **38.6** | 82.0 |
| Acquisition of subsidiary companies (Note 32(E)) | **4.5** | – |
| Impairment (Note 6) | **(1.2)** | – |
| Increased investments in subsidiary companies | **–** | 18.3 |
| **Net Book Amount at 31 December** | **817.1** | 775.2 |

(A) Goodwill is allocated to the Group's cash-generating units identified according to the business and geographical segments. The goodwill amounts at 31 December 2010 and 31 December 2009 mainly relate to (a) Indofood's businesses (principally plantations and dairy) which contribute to the Group's consumer food products business segment located in Indonesia and (b) MPIC's businesses (water distribution and toll roads) which contribute to the Group's infrastructure business segment located in the Philippines.

(B) In assessing the impairment for goodwill, the Group compares the carrying amount of the underlying assets against their recoverable amounts (the higher of the assets' fair value less costs to sell and their value in use). The recoverable amounts of Indofood's and MPIC's businesses have been determined based on fair value less costs to sell or value in use calculations using cash flow projections covering periods from 4 years up to 10 years (for the plantation companies) for Indofood's businesses, and 27 years for MPIC's water distribution and toll road businesses. The discount rates applied to cash flow projections range from 7.1% to 16.7% (2009: 12.9% to 18.6%) for Indofood's businesses, 11.5% (2009: 14.1%) for MPIC's water distribution business and 10.9% (2009: 12.5%) for MPIC's toll road business, which reflect the weighted average cost of capital of the relevant businesses.

In the assessment of the recoverable amount of Indofood's plantation businesses, the projected selling price of CPO over the projection period is based on the consensus of reputable independent forecasting service firms for the short-term period and the World Bank forecasts for the remaining projection period (2009: the World Bank forecasts), while the projected selling price of rubber (RSS1 and other rubber products of the Group) over the projection period is based on actual historical selling prices of the Group and World Bank forecasts (2009: actual historical selling prices of the Group and World Bank forecasts); and, the sugar price used in the projection is based on actual historical selling prices of the Group and World Bank forecasts (2009: actual historical selling prices of the Group). The cash flows beyond the projection periods are extrapolated using an estimated growth rate of 6.5% (2009: 6.5%), which does not exceed the long term average growth rate of the industry and country in which the businesses operate.

In the assessment of the recoverable amount of Indofood's dairy businesses, their value in use were calculated based on their cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic condition that will exist over the forecast period. The cash flows beyond the projection periods are extrapolated using an estimated growth rate of 5.0% (2009: 5.0%), which does not exceed the long term average growth rate of the industry and country in which the businesses operate.

In the assessment of the recoverable amount of MPIC's water distribution and toll roads businesses, their value in use were calculated based on their cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic condition that will exist over the forecast period.

Changes to the above assumptions used by the management to determine the recoverable amounts can have significant impact on the results of the assessment. Management is of the opinion that no reasonably possible change in any of the key assumptions stated above would cause the carrying amount of the goodwill for each of the cash-generating units to materially exceed the recoverable amounts.

## 17. Other Intangible Assets

| US$ millions | Concession assets - Water distribution | Concession assets - Toll roads | Brands | **Consolidated** |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2010 | 1,067.9 | 373.1 | 403.1 | **1,844.1** |
| Exchange translation | 62.5 | 20.9 | 18.3 | **101.7** |
| Additions | 181.7 | 27.9 | – | **209.6** |
| **At 31 December 2010** | 1,312.1 | 421.9 | 421.4 | **2,155.4** |
| **Accumulated Amortization** | | | | |
| At 1 January 2010 | 80.9 | 14.1 | 20.7 | **115.7** |
| Exchange translation | 5.4 | 1.2 | 1.1 | **7.7** |
| Charge for the year (Note 6) | 36.9 | 13.6 | 21.4 | **71.9** |
| **At 31 December 2010** | 123.2 | 28.9 | 43.2 | **195.3** |
| **Net Book Amount at 31 December 2010** | 1,188.9 | 393.0 | 378.2 | **1,960.1** |

| US$ millions | Concession assets - Water distribution | Concession assets - Toll roads | Brands | Consolidated |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2009 | 862.0 | 356.1 | 346.0 | 1,564.1 |
| Exchange translation | 32.1 | 10.3 | 57.1 | 99.5 |
| Additions | 173.8 | 6.7 | – | 180.5 |
| **At 31 December 2009** | 1,067.9 | 373.1 | 403.1 | 1,844.1 |
| **Accumulated Amortization** | | | | |
| At 1 January 2009 | 24.1 | 1.5 | – | 25.6 |
| Exchange translation | 4.0 | 0.5 | 1.9 | 6.4 |
| Charge for the year (Note 6) | 52.8 | 12.1 | 18.8 | 83.7 |
| **At 31 December 2009** | 80.9 | 14.1 | 20.7 | 115.7 |
| **Net Book Amount at 31 December 2009** | 987.0 | 359.0 | 382.4 | 1,728.4 |

(A) Concession assets – Water distribution represents the exclusive right granted by Metropolitan Waterworks and Sewerage System (MWSS) on behalf of the Philippine government for Maynilad to provide water distribution and sewerage services and charge users for these services provided in the areas of West Metro Manila during its concession period.

In February 1997, Maynilad entered into a concession agreement with MWSS, with respect to the MWSS West Service Area. Under the concession agreement, MWSS grants Maynilad, the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required to provide water and sewerage services in the West Service Area for 25 years ending in 2022. In September 2009, MWSS approved an extension of its concession agreement with Maynilad for another 15 years to 2037. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the expiration date at which time, all rights, titles and interests in such assets will automatically vest to MWSS. Under the concession agreement, Maynilad is entitled to (a) an annual standard rate adjustment to compensate for increases in the consumer price index subject to a rate adjustment limit; (b) an extraordinary price adjustment to account for the financial consequences of the occurrence of certain unforeseen events subject to grounds stipulated in the concession agreement; and (c) a rate rebasing mechanism which allows rates to be adjusted every five years to enable Maynilad to efficiently and prudently recover expenditures incurred, Philippine business taxes and payments corresponding to debt service on concession fees and Maynilad loans incurred to finance such expenditures.

(B) Concession assets – Toll roads represent the concession comprising the right, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income held by Manila North Tollways Corporation (MNTC) in respect of the Manila North Expressway (also known as North Luzon Expressway) (NLEX) during its concession period.

In August 1995, First Philippine Infrastructure Development Corporation (FPIDC), the parent company of MNTC, entered into a joint venture agreement with Philippine National Construction Corporation (PNCC), in which PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLEX and its extensions, stretches, linkages and diversions in favour of MNTC, including the design, funding, construction, rehabilitation, refurbishing and modernization and selection and installation of an appropriate toll collection system therein during the concession period subject to prior approval by the President of the Philippines. In April 1998, the Philippine government, acting by and through the Toll Regulatory Board as the grantor, PNCC as the franchisee and MNTC as the concessionaire executed a Supplemental Toll Operation Agreement (STOA) whereby the Philippine government recognized and accepted the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise in favor of MNTC as approved by the President of the Philippines and granted MNTC concession rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the NLEX project roads as toll roads commencing upon the date the STOA comes into effect until 31 December 2030 or 30 years after the issuance of the Toll Operation Permit for the last completed phase, whichever is earlier. In October 2008, the concession agreement was extended for another seven years to 2037. Pursuant to the STOA, MNTC is required to pay franchise fees to PNCC and to pay for the government's project overhead expenses based on certain percentages of construction costs and maintenance works on the project roads. Upon expiry of the concession period, MNTC shall handover the project roads to the Philippine government without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

(C) Brands represent the brands held by PT Indolakto (Indolakto) for its various milk-related products, which include Indomilk, Cap Enaak, Tiga Sapi, Indoeskrim, Nice and Orchid.

(D) All of the Group's concession assets and brands were acquired by the Group as part of a business combination.

(E) The useful lives for amortization:

| | |
|---|---|
| Concession assets – Water distribution | Remaining concession life of 30 years since acquisition |
| Concession assets – Toll roads | Remaining concession life of 29 years since acquisition |
| Brands | 20 years |

(F) Other intangible assets with a net book amount of US$935.1 million (2009: US$789.1 million) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

## 18. Accounts Receivable, Other Receivables and Prepayments

| US$ millions | Consolidated 2010 | 2009 (Restated) |
|---|---|---|
| Accounts receivable | **299.7** | 238.4 |
| Other receivables | **151.6** | 348.5 |
| Prepayments | **65.2** | 51.8 |
| **Total** | **516.5** | 638.7 |
| **Presented as:** | | |
| **Non-current Portion** | **23.8** | 6.6 |
| **Current Portion** | **492.7** | 632.1 |
| **Total** | **516.5** | 638.7 |

(A) The carrying amount of the current portion of accounts receivable, other receivables and prepayments approximates to their fair value. The fair value of the non-current portion of accounts receivable and other receivables is US$22.5 million (2009: US$6.8 million) which is determined based on cash flows discounted using a weighted average prevailing interest rate of 9.4% (2009: 9.0%). The weighted average effective interest rate of the non-current portion of accounts receivable and other receivables is 7.7% (2009: 8.5%).

(B) An ageing profile of accounts receivable is analyzed as below.

| US$ millions | Consolidated 2010 | 2009 |
|---|---|---|
| 0 to 30 days | **271.5** | 190.9 |
| 31 to 60 days | **12.5** | 10.5 |
| 61 to 90 days | **4.7** | 11.4 |
| Over 90 days | **11.0** | 25.6 |
| **Total** | **299.7** | 238.4 |

| US$ millions | Consolidated 2010 | 2009 |
|---|---|---|
| Neither past due nor impaired | **283.4** | 195.9 |
| Past due but not impaired | | |
| - 0 to 30 days past due | **6.9** | 8.9 |
| - 31 to 60 days past due | **2.8** | 22.0 |
| - 61 to 90 days past due | **6.0** | 11.6 |
| - Over 90 days past due | **0.6** | – |
| **Total** | **299.7** | 238.4 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable or covered by general provision.

(C) At 31 December 2010, accounts receivable of US$12.9 million (2009: US$24.9 million) were collectively impaired and fully provided for. Movements in the provision for impairment of accounts receivable were as follows.

| | **Consolidated** | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| At 1 January | **(24.9)** | (24.8) |
| Exchange translation | **(1.3)** | 7.2 |
| Amount written off as uncollectible | **13.5** | – |
| Charge for the year (Note 6) | **(0.2)** | (7.3) |
| **At 31 December** | **(12.9)** | (24.9) |

(D) As the Group's accounts receivable relate to a large number of diversified customers, there is no concentration of credit risk.

(E) Indofood generally allows local customers an average of 30 days of credit and export customers 60 days of credit. MPIC (a) allows 60 days of credit for its water service customers and (b) collects toll fees through its associated company, Tollways Management Corporation (TMC), by cash, by prepaid and reloadable electronic toll collection devices and by credit card payment.

## 19. Available-for-sale Assets

| | **Consolidated** | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Listed investments, at fair value: | | |
| - Equity investments – Overseas | **51.1** | 34.9 |
| - Debentures with a fixed interest rate of 6.5% to 14.0% (2009: 14.0%) and a maturity date of between 31 July 2011 and 5 August 2015 (2009: 1 October 2014) - Overseas | **10.0** | 0.3 |
| Unlisted investments, at cost less impairment provisions: | | |
| - Equity investments – Overseas | **13.4** | 5.2 |
| Unlisted investments, at fair value: | | |
| - Club debentures – Hong Kong | **2.1** | 2.1 |
| **Total** | **76.6** | 42.5 |
| **Presented as:** | | |
| **Non-Current Portion** | **13.8** | 2.1 |
| **Current Portion** | **62.8** | 40.4 |
| **Total** | **76.6** | 42.5 |

(A) The fair values of the listed equity investments and debentures are based on quoted market prices. The fair value of the unlisted investments in club debentures has been estimated by reference to recent market transaction prices. The Directors believe that the estimated fair values by reference to market prices, which are recorded in the carrying amounts of the available-for-sale assets, and the related changes in fair values, which are recorded directly in the Group's equity, are reasonable, and that they are the most appropriate values at the end of the reporting period.

(B) Available-for-sale assets with a net book amount of US$9.7 million (2009: Nil) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

## 20. Deferred Tax

The movements in deferred tax assets during the year are as follows.

| US$ millions | Tax loss carry forward | Allowance for doubtful accounts | Liabilities for employee retirement benefits | Others | **Consolidated** |
|---|---|---|---|---|---|
| **Deferred Tax Assets** | | | | | |
| At 1 January 2010 | 16.7 | 0.5 | 17.7 | 23.4 | **58.3** |
| Exchange translation | 0.7 | 0.1 | 1.2 | 1.0 | **3.0** |
| Credit/(charge) to the income statement (Note 7) | 6.5 | 2.8 | 26.3 | (14.1) | **21.5** |
| **At 31 December 2010** | 23.9 | 3.4 | 45.2 | 10.3 | **82.8** |

| US$ millions | Tax loss carry forward | Allowance for doubtful accounts | Liabilities for employee retirement benefits | Others | Consolidated |
|---|---|---|---|---|---|
| **Deferred Tax Assets** | | | | | |
| At 1 January 2009 | 9.2 | 2.0 | 17.0 | 10.5 | 38.7 |
| Exchange translation | 2.0 | 0.1 | 2.3 | 1.3 | 5.7 |
| Credit/(charge) to the income statement (Note 7) | 5.5 | (1.6) | (1.6) | 11.6 | 13.9 |
| **At 31 December 2009** | 16.7 | 0.5 | 17.7 | 23.4 | 58.3 |

The movements in deferred tax liabilities during the year are as follows.

| US$ millions | Allowance in excess of related depreciation of property, plant and equipment | Brands | Change in fair value of plantations | Withholding tax on undistributed earnings of subsidiary and associated companies | Others | **Consolidated** |
|---|---|---|---|---|---|---|
| **Deferred Tax Liabilities** | | | | | | |
| At 1 January 2010 | (182.3) | (97.2) | (90.6) | (25.2) | – | **(395.3)** |
| Exchange translation | (13.0) | (3.4) | (5.8) | (1.2) | – | **(23.4)** |
| Acquisition of subsidiary companies (Note 32(E)) | – | – | – | – | (1.5) | **(1.5)** |
| (Charge)/credit to the income statement (Note 7) | (1.3) | (1.0) | (3.3) | (22.4) | 1.5 | **(26.5)** |
| Transfer to provision for taxation (Note 27) | – | – | – | 16.4 | – | **16.4** |
| **At 31 December 2010** | (196.6) | (101.6) | (99.7) | (32.4) | – | **(430.3)** |

| US$ millions | Allowance in excess of related depreciation of property, plant and equipment | Brands | Change in fair value of plantations | Withholding tax on undistributed earnings of subsidiary and associated companies | Others | Consolidated |
|---|---|---|---|---|---|---|
| **Deferred Tax Liabilities** | | | | | | |
| At 1 January 2009 | (155.9) | (86.5) | (67.0) | (22.3) | (32.3) | (364.0) |
| Exchange translation | (10.7) | (8.9) | (8.2) | – | (1.4) | (29.2) |
| (Charge)/credit to the income statement (Note 7) | (15.7) | (1.8) | (15.4) | (13.7) | 33.7 | (12.9) |
| Transfer to provision for taxation (Note 27) | – | – | – | 10.8 | – | 10.8 |
| **At 31 December 2009** | (182.3) | (97.2) | (90.6) | (25.2) | – | (395.3) |

Pursuant to the Philippines and Indonesian income tax laws, withholding taxes of 10% to 15% are levied on dividends declared to foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary and associated companies in the Philippines and Indonesia. The Group had fully recognized the deferred tax liabilities for the withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of its associated companies established in the Philippines. However, except for those earnings to be distributed as dividends, no deferred tax liabilities had been recognized for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary companies established in the Philippines and Indonesia. In the opinion of the Directors, it is not probable that these subsidiary companies will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiary companies in the Philippines and Indonesia for which deferred tax liabilities have not been recognized totaled approximately US$52.0 million at 31 December 2010 (2009: US$32.8 million).

The Group has tax losses of US$24.1 million (2009: US$16.7 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 21. Other Non-current Assets

| | **Consolidated** | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Plasma receivables | **66.8** | 48.6 |
| Deposits for acquisition of assets | **50.7** | 125.4 |
| Claims for tax refund | **50.6** | 67.1 |
| Others | **43.9** | 64.8 |
| **Total** | **212.0** | 305.9 |

(A) Plasma receivables represent advances made by Indofood to certain farmers in relation to arrangements for those farmers' production and sale of fresh fruit bunches to Indofood. The carrying amounts of the plasma receivables approximate to their fair value.

(B) The deposits for acquisition of assets mainly represent Indofood's deposits for the acquisition of certain land rights and vessels.

(C) The claims for tax refund relate to the tax payment in advance made by Indofood in respect of wheat importation which is creditable against Indofood's corporate income tax payable.

(D) Other non-current assets with a net book amount of US$37.3 million (2009: US$8.7 million) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

## 22. Cash and Cash Equivalents

| US$ millions | Consolidated 2010 | Consolidated 2009 | Company 2010 | Company 2009 |
|---|---|---|---|---|
| Cash at banks and on hand | **1,249.8** | 751.4 | **43.1** | 129.6 |
| Short-term time deposits | **289.0** | 185.2 | **213.1** | 132.6 |
| **Total** | **1,538.8** | 936.6 | **256.2** | 262.2 |

(A) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short- term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

(B) Cash and cash equivalents with a net book amount of US$51.7 million (2009: US$111.7 million) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

## 23. Restricted Cash and Pledged Deposits

At 31 December 2010, the Group had US$41.4 million (2009: US$17.2 million) of cash which was set aside to cover principal and interest payments of certain borrowings and restricted as to use, and US$12.0 million (2009: US$12.0 million) of pledged bank deposits.

## 24. Inventories

| US$ millions | Consolidated 2010 | Consolidated 2009 |
|---|---|---|
| Raw materials | **390.8** | 349.1 |
| Work in progress | **9.9** | 7.8 |
| Finished goods | **234.8** | 192.3 |
| **Total** | **635.5** | 549.2 |

(A) At 31 December 2010, inventories with a carrying amount of US$117.2 million (2009: US$80.9 million) were carried at net realizable value.

(B) At 31 December 2010, inventories with a carrying amount of US$3.8 million (2009: US$4.0 million) were pledged as security for certain of the Group's banking facilities (Note 26(D)).

## 25. Accounts Payable, Other Payables and Accruals

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Accounts payable | **211.1** | 185.0 |
| Accrued expenses | **285.2** | 305.6 |
| Other payables | **211.2** | 137.6 |
| **Total** | **707.5** | 628.2 |

The ageing profile of accounts payable is analyzed as follows:

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| 0 to 30 days | **188.5** | 162.9 |
| 31 to 60 days | **10.6** | 5.1 |
| 61 to 90 days | **7.9** | 11.6 |
| Over 90 days | **4.1** | 5.4 |
| **Total** | **211.1** | 185.0 |

All of the accounts payable, other payables and accruals are expected to be settled within one year. The carrying amounts of the Group's accounts payable, other payables and accruals approximate to their fair value.

## 26. Borrowings

| | | | | Consolidated | |
|---|---|---|---|---|---|
| US$ millions | Effective interest rate (%) | Maturity | Notes | **2010** | 2009 |
| **Short-term** | | | | | |
| Bank loans | 8.3 – 13.0 (2009: 3.1 – 12.8) | 2011 (2009: 2010) | | **628.7** | 781.9 |
| Other loans | 2.5 – 9.5 (2009: 2.5 – 9.0) | 2011 (2009: 2010) | (A) | **16.7** | 47.8 |
| Subtotal | | | | **645.4** | 829.7 |
| **Long-term** | | | | | |
| Bank loans | 3.7 – 13.0 (2009: 3.1 – 12.8) | 2012 – 2018 (2009: 2011 – 2018) | (B) | **1,515.9** | 2,395.9 |
| Other loans | 6.8 – 13.0 (2009: 10.0 – 13.2) | 2012 – 2020 (2009: 2011 – 2014) | (C) | **1,277.9** | 459.7 |
| Subtotal | | | | **2,793.8** | 2,855.6 |
| **Total** | | | | **3,439.2** | 3,685.3 |

The balance of short-term borrowings includes US$187.0 million (2009: US$211.7 million) of the current portion of long-term borrowings.

The maturity profile of the Group's borrowings is as follows:

| US$ millions | Bank loans 2010 | Bank loans 2009 | Other loans 2010 | Other loans 2009 | Consolidated 2010 | Consolidated 2009 |
|---|---|---|---|---|---|---|
| Not exceeding one year | **628.7** | 781.9 | **16.7** | 47.8 | **645.4** | 829.7 |
| More than one year but not exceeding two years | **417.9** | 764.5 | **232.7** | – | **650.6** | 764.5 |
| More than two years but not exceeding five years | **708.0** | 949.4 | **354.7** | 458.8 | **1,062.7** | 1,408.2 |
| More than five years | **390.0** | 681.9 | **690.5** | 1.0 | **1,080.5** | 682.9 |
| **Total** | **2,144.6** | 3,177.7 | **1,294.6** | 507.6 | **3,439.2** | 3,685.3 |
| Representing amounts | | | | | | |
| - wholly payable within five years | **1,754.6** | 2,467.4 | **604.1** | 506.6 | **2,358.7** | 2,974.0 |
| - not wholly payable within five years | **390.0** | 710.3 | **690.5** | 1.0 | **1,080.5** | 711.3 |
| **Total** | **2,144.6** | 3,177.7 | **1,294.6** | 507.6 | **3,439.2** | 3,685.3 |

The carrying amounts of the borrowings are denominated in the following currencies:

| US$ millions | Consolidated 2010 | Consolidated 2009 |
|---|---|---|
| U.S. dollar | **1,601.8** | 1,582.7 |
| Rupiah | **1,130.6** | 1,300.1 |
| Peso | **706.8** | 802.5 |
| **Total** | **3,439.2** | 3,685.3 |

An analysis of the carrying amounts of borrowings into fixed and variable interest rates is as follows:

| US$ millions | Consolidated 2010 | Consolidated 2009 |
|---|---|---|
| Fixed interest rate | **1,946.5** | 2,296.0 |
| Variable interest rate | **1,492.7** | 1,389.3 |
| **Total** | **3,439.2** | 3,685.3 |

The carrying amounts and fair values of the long-term borrowings are as follows:

| US$ millions | Carrying amounts 2010 | Carrying amounts 2009 | Fair values 2010 | Fair values 2009 |
|---|---|---|---|---|
| Bank loans | **1,515.9** | 2,395.9 | **1,627.1** | 2,458.5 |
| Other loans | **1,277.9** | 459.7 | **1,334.6** | 418.8 |
| **Total** | **2,793.8** | 2,855.6 | **2,961.7** | 2,877.3 |

The fair values are based on published price quotations for listed bonds issued by the Group and projected cash flows discounted using the borrowing rates ranging from 3.1% to 12.8% (2009: 3.1% to 12.8%) for the other fixed interest rate borrowings. The carrying amounts of the Group's variable interest rate borrowings approximate to their fair values due to frequent repricing.

The carrying amounts of the short-term borrowings approximate to their fair values.

Details of the borrowings are set out below.

**(A) Short-term Other Loans**

The balance includes the current portion of Pesos 5.4 billion (US$123.6 million) (2009: Nil) of vendor financing by Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company, in January 2010, secured by its 5.8% interest in Philex, with a fixed interest rate of 5.5% per annum. The current portion of the vendor financing acquired was Pesos 0.6 billion (US$13.7 million) and is repayable in January 2011, and the remaining Pesos 4.8 billion (US$109.9 million) is repayable in January 2012 and January 2013.

**(B) Long-term Bank Loans**

The balance includes US$289.7 million (with an aggregate face value of US$291.3 million) of bank loans (2009: US$875.0 million, with an aggregate face value of US$886.3 million) borrowed by certain wholly-owned subsidiary companies of the Company with details summarized as follows:

(a) A US$44.9 million (with a face value of US$45.0 million) bank loan (2009: US$44.8 million) drawn in November 2005 secured by the Group's 1.4% (2009: 1.3%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in November 2012. In November 2009, a wholly-owned subsidiary company of the Company entered into an interest rate swap agreement, which effectively changed this loan into a loan subject to a fixed interest rate of 5.1% per annum.

(b) A US$46.1 million (with a face value of US$46.3 million) bank loan (2009: US$46.1 million) drawn in November 2006 secured by the Group's 1.1% (2009: 1.3%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in November 2013.

(c) A US$198.7 million (with a face value of US$200.0 million) bank loan (2009: US$198.1 million) drawn in August 2007 secured by the Group's 4.4% (2009: 5.4%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in December 2012. In April 2009, a wholly-owned subsidiary company of the Company entered into an interest rate swap agreement, which effectively changed this loan into a loan subject to a fixed interest rate of 3.2% per annum.

**(C) Long-term Other Loans**

The balance includes bonds issued by FPMH Finance Limited and FPT Finance Limited, wholly-owned subsidiary companies of the Company, Indofood and PT Salim Ivomas Pratama (SIMP). Details are summarized as follows:

(a) US$294.4 million (with a face value of US$300.0 million) (2009: Nil) of guaranteed secured bonds issued by FPMH Finance Limited, in July 2010, with a coupon rate of 7.375% per annum, are payable semi-annually, and mature in July 2017. The bonds are guaranteed by the Company and are secured by (a) a 55.6% interest in MPIC common shares and (b) an amount of cash to be used for the payment of next installment interest of the bonds.

(b) US$395.1 million (with a face value of US$400.0 million) (2009: Nil) of guaranteed secured bonds issued by FPT Finance Limited, in September 2010, with a coupon rate of 6.375% per annum, are payable semi-annually, and mature in September 2020. The bonds are guaranteed by the Company and secured by an 8.0% interest in PLDT common shares.

(c) Rupiah 2.0 trillion (US$217.9 million) of Rupiah bonds (which represents the original amount issued by Indofood in May 2007 of Rupiah 2.0 trillion (US$222.4 million) less repurchase of bonds with a face value of Rupiah 36 billion (US$4.0 million) during 2010) (2009: US$211.9 million), with a coupon rate of 10.0%, are payable quarterly, and mature in May 2012.

(d) Rupiah 1.6 trillion (US$178.1 million) of Rupiah bonds (2009: US$170.1 million) issued by Indofood in June 2009, with a coupon rate of 13.2%, are payable quarterly, and mature in June 2014.

(e) Rupiah 448 billion (US$49.8 million) of 5-year Rupiah bonds (2009: US$47.6 million) issued by SIMP in November 2009, with a coupon rate of 11.65%, are payable quarterly, and mature in November 2014.

(f) Rupiah 275 billion (US$30.6 million) of 5-year Islamic Lease-based bonds (2009: US$29.2 million) issued by SIMP in November 2009, with a coupon rate of 11.65%, are payable quarterly, and mature in November 2014.

**(D) Charges on Group Assets**

At 31 December 2010, the total borrowings include secured bank and other borrowings of US$1,880.6 million (2009: US$1,971.7 million). Such bank and other borrowings were secured by the Group's property, plant and equipment, plantations, other intangible assets, other non-current assets, cash and cash equivalents and inventories equating to a net book value of US$1,121.9 million (2009: US$1,032.0 million) and the Group's interests of 14.9% (2009: 24.3%) in PLDT, 55.6% (2009: Nil) in MPIC, 5.8% (2009: 2.0%) in Philex, 99.8% (2009: 99.8%) in MPTC, 9.9% (2009: 9.9%) in Maynilad, none (2009: 16.5%) in DMWC and none (2009: 10.5%) in Meralco.

**(E) Bank Covenants**

The Group has complied with all of its bank covenants, except for those related to Metro Pacific Corporation (Metro Pacific). Since the fourth quarter of 2001, Metro Pacific has been unable to meet its debt obligations. At 31 December 2010, Metro Pacific had Pesos 109 million (US$2.5 million) (2009: Pesos 109 million or US$2.4 million) outstanding debt obligations.

## 27. Provision for Taxation

| US$ millions | Consolidated 2010 | 2009 |
|---|---|---|
| At 1 January | **68.9** | 55.8 |
| Exchange translation | **3.0** | 8.5 |
| Provision for taxation on estimated assessable profits for the year (Note 7) | **198.2** | 144.7 |
| Transfer from deferred taxation (Note 20) | **16.4** | 10.8 |
| **Total** | **286.5** | 219.8 |
| Taxes paid | **(232.1)** | (150.9) |
| **At 31 December** | **54.4** | 68.9 |

## 28. Deferred Liabilities and Provisions

| | | | | Consolidated | |
|---|---|---|---|---|---|
| US$ millions | Long-term liabilities | Pension | Others | **2010** | 2009 |
| At 1 January | 295.0 | 210.1 | 75.4 | **580.5** | 471.8 |
| Exchange translation | 14.9 | 9.8 | 4.0 | **28.7** | 37.7 |
| Additions | 40.9 | 52.9 | 57.4 | **151.2** | 169.6 |
| Payment and utilization | (72.3) | (6.1) | (18.3) | **(96.7)** | (98.6) |
| Acquisition of subsidiary companies (Note 32(E)) | – | – | 6.9 | **6.9** | – |
| **At 31 December** | 278.5 | 266.7 | 125.4 | **670.6** | 580.5 |
| **Presented as:** | | | | | |
| **Current Portion** | 26.9 | 0.1 | 70.5 | **97.5** | 73.5 |
| **Non-current Portion** | 251.6 | 266.6 | 54.9 | **573.1** | 507.0 |
| **Total** | 278.5 | 266.7 | 125.4 | **670.6** | 580.5 |

The long-term liabilities mainly relate to Maynilad's concession fees payable to MWSS, including a provision for certain additional concession fees payable and related interest amounts in dispute between Maynilad and MWSS recognized by the Group upon its acquisition of Maynilad, and deferred credits (which represent foreign exchange gains and other payables which will be refunded to the customers and foreign exchange differences arising from retranslation of the portion of Maynilad's foreign currency denominated concession fees payable and loans) and Indofood's accrued liabilities for dismantlement, removal or restoration in relation to property, plant and equipment. In respect of the disputed amounts with MWSS, no final resolution has been reached at 31 December 2010.

The pension relates to accrued liabilities in relation to retirement schemes and long service payments.

## 29. Share Capital

| US$ millions | Consolidated and Company 2010 | 2009 |
|---|---|---|
| **Authorized** | | |
| 5,000,000,000 (2009: 5,000,000,000) ordinary shares of U.S. 1 cent each | **50.0** | 50.0 |
| **Issued and fully paid** | | |
| At 1 January | **38.6** | 32.1 |
| Issue of shares upon the exercise of share options | **0.7** | – |
| Repurchase and cancellation of shares | **(0.3)** | – |
| Issue of shares in respect of rights issue | **–** | 6.5 |
| **At 31 December** | | |
| 3,902,373,478 (2009: 3,860,324,403) ordinary shares of U.S. 1 cent each | **39.0** | 38.6 |

(A) During the year, 68,327,075 (2009: 3,560,000) share options were exercised at the exercise prices of HK$3.1072 per share and HK$1.6698 per share (after adjusting for the effect of Company's 2009 rights issue) (2009: HK$1.76 per share, before adjusting for the effect of Company's 2009 rights issue), resulting in the issue of 68,327,075 (2009: 3,560,000) new ordinary shares of U.S. 1 cent each for a total cash consideration of HK$146.4 million (US$18.9 million) (2009: HK$6.3 million or US$0.8 million). Details of the Company's share option scheme are set out in Note 35(D)(a) to the Consolidated Financial Statements.

(B) On 1 June 2010, the Company announced that its Directors have approved a programme to repurchase up to US$130 million (equivalent to approximately HK$1 billion) in value of the Company's shares from the open market, by way of "on market repurchases", over a 24-month period.

During the year, the Company repurchased 26,278,000 (2009: Nil) ordinary shares on the SEHK at an aggregate consideration of HK$173.9 million (US$22.4 million) (2009: Nil). These shares have been subsequently cancelled. Details of the repurchases are summarized as follows:

| Month of repurchases | Number of ordinary shares repurchased | Purchase price paid per share Highest HK$ | Lowest HK$ | Aggregate consideration paid HK$ millions | US$ millions |
|---|---|---|---|---|---|
| June 2010 | **1,650,000** | 5.50 | 5.05 | **8.7** | **1.1** |
| July 2010 | **2,280,000** | 5.51 | 5.27 | **12.4** | **1.6** |
| August 2010 | **326,000** | 5.78 | 5.65 | **1.9** | **0.2** |
| September 2010 | **150,000** | 5.78 | 5.76 | **0.8** | **0.1** |
| October 2010 | **6,472,000** | 7.39 | 6.96 | **46.3** | **6.0** |
| November 2010 | **9,752,000** | 7.26 | 6.41 | **66.0** | **8.5** |
| December 2010 | **5,648,000** | 7.01 | 6.58 | **37.8** | **4.9** |
| **Total** | **26,278,000** | | | **173.9** | **22.4** |

The repurchases were effected by the Directors with a view to benefiting the shareholders as a whole by enhancing the Company's net assets and earnings per share.

## 30. Other Components of Equity

An analysis of the Group's exchange reserve, by principal operating company, is set out below.

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| PLDT | **11.9** | (14.7) |
| MPIC | **46.5** | 13.8 |
| Indofood | **19.2** | (6.5) |
| Philex | **19.3** | 8.4 |
| Others | **(1.5)** | 0.2 |
| **Total** | **95.4** | 1.2 |

An analysis of the accumulated reserves of associated companies and joint ventures, included within consolidated reserves, is set out below.

| | Associated companies | | Joint ventures | | Consolidated | |
|---|---|---|---|---|---|---|
| US$ millions | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Associated Companies and Joint Ventures** | | | | | | |
| Revenue reserve | **(819.5)** | (829.8) | **(16.4)** | (1.7) | **(835.9)** | (831.5) |
| Exchange reserve | **31.2** | (6.0) | **0.3** | 0.1 | **31.5** | (5.9) |
| Unrealized gains/(losses) on cash flow hedges | **2.6** | (0.1) | **–** | – | **2.6** | (0.1) |
| Capital and other reserves | **13.2** | 11.4 | **–** | – | **13.2** | 11.4 |
| **Total** (Note 15) | **(772.5)** | (824.5) | **(16.1)** | (1.6) | **(788.6)** | (826.1) |

The Group's capital and other reserves include US$0.5 million (2009: US$0.2 million) of the capital redemption reserve.

The US$173.8 million (2009: US$173.8 million) contributed surplus of the Company arose from a reorganization of the Group in 1988 and represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiary companies acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus provided certain conditions are met.

## 31. Non-controlling Interests

An analysis of the Group's non-controlling interests, by principal operating company, is set out below.

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Indofood | **2,238.5** | 1,428.3 |
| MPIC | **798.4** | 694.6 |
| **Total** | **3,036.9** | 2,122.9 |

## 32. Notes to the Consolidated Statement of Cash Flows

### (A) Proceeds from Divestment of Interest in Subsidiary Companies

2010's cash inflow of US$755.5 million mainly represents the net proceeds from ICBP's global offering of shares representing 20% of its enlarged capital (US$670.1 million) and Indofood Agri Resources Ltd (a subsidiary company of Indofood)'s disposal of a 4.9% interest in its subsidiary company, PT Perusahaan Perkebunan London Sumatra Tbk (US$84.1 million).

### (B) Proceeds from Disposal of an Associated Company

2010's cash inflow of US$23.3 million represents the net proceeds from the Group's disposal of its entire 39.5% interest in Level Up! International Holdings Pte. Ltd.

**(C) Increased Investments in Associated Companies**

2010's cash outflow of US$59.4 million mainly relates to the payments of (a) the remaining consideration for the acquisition of a 9.2% interest in Philex in December 2009 and (b) a 10% installment of the total consideration for the acquisition of a 5.9% interest in Philex in January 2010 by Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company. The remaining 90% unpaid portion of the consideration for Two Rivers' acquisition of the 5.9% interest in Philex was financed by a vendor financing of Pesos 5.4 billion (US$123.6 million) with a fixed interest rate of 5.5% per annum.

**(D) Increased Investments in Subsidiary Companies**

2010's cash outflow of US$40.1 million mainly relates to the Group's acquisition of a 0.5% interest in ICBP (US$18.5 million) and Indofood's acquisition of the remaining 10% interest in Pacsari Pte., Ltd. (US$10.5 million).

**(E) Acquisition of Subsidiary Companies**

| | Provisional fair value recognized on acquisition[i] | | | Carrying amount immediately before the acquisition |
|---|---|---|---|---|
| US$ millions | MPIC's acquisition of Riverside and its subsidiary company | Others | **2010 Total** | **2010 Total** |
| **Consideration** | | | | |
| Cash and cash equivalents | 6.0 | 1.1 | **7.1** | **7.1** |
| Others | – | 1.2 | **1.2** | **1.2** |
| **Total** | 6.0 | 2.3 | **8.3** | **8.3** |
| **Net Assets** | | | | |
| Property, plant and equipment (Note 12) | 15.4 | 4.2 | **19.6** | **19.6** |
| Other non-current assets | 0.2 | – | **0.2** | **0.2** |
| Cash and cash equivalents | 1.2 | – | **1.2** | **1.2** |
| Available-for-sale assets (Non-current) | – | 3.1 | **3.1** | **3.1** |
| Accounts receivable, other receivables and prepayments (Current) | 2.6 | – | **2.6** | **2.6** |
| Inventories | 0.9 | – | **0.9** | **0.9** |
| Accounts payable, other payables and accruals | (4.9) | (0.3) | **(5.2)** | **(5.2)** |
| Short-term borrowings | (1.1) | – | **(1.1)** | **(1.1)** |
| Current portion of deferred liabilities and provisions (Note 28) | – | (6.9) | **(6.9)** | **(6.9)** |
| Long-term borrowings | (4.1) | – | **(4.1)** | **(4.1)** |
| Deferred tax liabilities (Note 20) | (1.5) | – | **(1.5)** | **(1.5)** |
| **Total Net Assets** | 8.7 | 0.1 | **8.8** | **8.8** |
| Non-controlling interests | (4.3) | (0.7) | **(5.0)** | |
| **Total Net Assets Acquired at Fair Value** | 4.4 | (0.6) | **3.8** | |
| **Goodwill** (Note 16) | 1.6 | 2.9 | **4.5** | |
| **Net Cash Outflow Per the Consolidated Statement of Cash Flows** | (4.8) | (1.1) | **(5.9)** | |

(i) Provisional amount determined assuming the fair values of the identifiable assets acquired and liabilities assumed equal to their carrying amounts immediately before the acquisition, and subject to revision upon further assessment of the fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed

In May 2010, MPIC acquired a 51.0% interest in Riverside Medical Center, Inc. (Riverside) at a total consideration of Pesos 276 million (US$6.0 million). Riverside is the largest hospital in Bacolod City and owns Riverside College, Inc., a nursing school.

Since the date of acquisition, the above acquired companies recorded a profit for the year of US$0.8 million, which is included in the income statement of the Group. If the acquisition had taken place on 1 January 2010, the turnover and net profit of the Group for the year ended 31 December 2010 would have been US$4,646.8 million and US$779.6 million, respectively. The subsidiary companies acquired during the year had net cash inflows from operating activities of US$1.6 million, and had net cash outflows of US$0.5 million in respect of investing activities and US$0.7 million in respect of financing activities during the year.

## 33. Commitments and Contingent Liabilities

### (A) Capital Expenditure

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Commitments in respect of subsidiary companies: | | |
| Authorized, but not contracted for | **368.9** | 197.4 |
| Contracted, but not provided for | **59.9** | 20.7 |
| **Total** | **428.8** | 218.1 |

The Group's capital expenditure commitments principally relate to Indofood's purchase of property, plant and equipment, investments in plantations, and Maynilad's and MNTC's construction of water and toll road infrastructures.

At 31 December 2010, the Company had no commitments in respect of capital expenditure (2009: Nil).

### (B) Leasing Commitments

At 31 December 2010, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows.

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| **Land and Buildings** | | |
| - Within one year | **3.5** | 3.5 |
| - Between two and five years, inclusive | **5.5** | 2.3 |
| - After five years | **0.1** | 0.7 |
| Subtotal | **9.1** | 6.5 |
| **Plant and Equipment** | | |
| - Within one year | **0.1** | 0.1 |
| - Between two and five years, inclusive | **0.1** | 0.1 |
| Subtotal | **0.2** | 0.2 |
| **Total** | **9.3** | 6.7 |

At 31 December 2010, the Company did not have any leasing commitments (2009: Nil).

### (C) Contingent Liabilities

At 31 December 2010, except for US$68.6 million (2009: US$62.1 million) guarantees given by Indofood for loan facilities obtained by certain plantation farmers in relation to arrangements for those farmers' production and sale of fresh fruit bunches to Indofood, neither the Group nor the Company had any significant contingent liabilities (2009: Nil). At 31 December 2010, the contingent liabilities at the Company in respect of its guarantees provided to certain banks in connection with the banking facilities granted to certain subsidiary companies of the Company amounts to US$71.1 million (2009: US$68.4 million).

## 34. Employees' Benefits

### (A) Remuneration

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Basic salaries | **298.3** | 221.0 |
| Bonuses | **53.4** | 52.2 |
| Benefits in kind | **49.5** | 50.8 |
| Pension contributions | **50.1** | 35.7 |
| Retirement and severance allowances | **4.6** | 7.5 |
| Equity-settled share option expense | **7.2** | 9.3 |
| **Total** (Note 6) | **463.1** | 376.5 |
| **Average Number of Employees** | **70,121** | 67,344 |

The above includes the remuneration of the Directors. Detailed disclosures in respect of the Directors' remuneration are set out in Note 35(A) to the Consolidated Financial Statements.

### (B) Retirement Benefits

The Group operates both defined contribution and defined benefit schemes. In addition, the Group has made provisions for estimated liabilities for employee benefits for meeting the minimum benefits required to be paid to the qualified employees as required under Indonesian's labour law.

#### (a) Defined contribution schemes

The Group operates five (2009: five) defined contribution schemes covering approximately 17,690 (2009: 19,046) employees. The assets of these schemes are held separately from the Group and are administered by independent trustees. Contributions to the schemes, either by the Group or by the employees, are determined by reference to the employees' salaries and length of service and range from 0% to 10% (2009: 0% to 10%). Under the terms of the schemes, the Group cannot be requested to make additional payments over and above these levels of contributions. In three (2009: three) of the schemes, forfeited contributions may be used to reduce the existing levels of employer contributions and, in 2010, no amount (2009: Nil) was used for this purpose. At 31 December 2010, the forfeited contributions had been fully utilized.

#### (b) Defined benefit schemes and estimated liabilities for employee benefits

The Group operates six (2009: four) defined benefit schemes covering approximately 3,728 (2009: 2,500) employees. The assets of six (2009: three) of these schemes are held separately from the Group and are administered by independent trustees. Benefits are determined by reference to employees' final salaries and length of service, and the schemes have undergone independent valuations. These actuarial valuations, performed by the actuaries of PT Sentra Jasa Aktuaria (a member of the Fellow Society of Actuary of Indonesia and Expert in Life Insurance in Indonesia), Actuarial Advisers, Inc. or Institutional Synergy, Inc, FASP (members of Actuary Society of the Philippines), were based on the projected unit credit method. The plan assets do not include any financial instruments of the Group or property occupied by, or other assets used by, the Group. At 31 December 2010, the Group's level of funding in respect of its defined benefit schemes was 95.9% (2009: 94.2%).

The Group has made provisions for estimated liabilities for employee benefits covering approximately 47,521 (2009: 47,637) employees. The amounts of such provisions were determined by reference to employees' final salaries and length of service and based on actuarial computations prepared by the actuaries of PT Sentra Jasa Aktuaria and PT Jasa Aktuaria Praptasentosa Gunajasa (members of the Fellow Society of Actuary of Indonesia and Expert in Life Insurance in Indonesia) using the projected unit credit method.

(I) The amounts of liability under defined benefit schemes and estimated liabilities for employee benefits included in the statement of financial position are as follows:

| US$ millions | Defined benefit schemes | Estimated liabilities for employee benefits | Consolidated 2010 | 2009 |
|---|---|---|---|---|
| Present value of defined benefit obligations | (26.9) | (262.7) | **(289.6)** | (224.3) |
| Fair value of plan assets | 25.8 | – | **25.8** | 19.4 |
| **Liability in the Statement of Financial Position** | (1.1) | (262.7) | **(263.8)** | (204.9) |

(II) The changes in the present value of the defined benefit schemes and estimated liabilities for employee benefits during the year are as follows:

| US$ millions | Defined benefit schemes | Estimated liabilities for employee benefits | Consolidated 2010 | 2009 |
|---|---|---|---|---|
| At 1 January | (20.6) | (203.7) | **(224.3)** | (144.3) |
| Exchange translation | (3.9) | (9.5) | **(13.4)** | (27.6) |
| Current service cost | (1.8) | (18.7) | **(20.5)** | (16.7) |
| Past service cost | – | 6.6 | **6.6** | (2.6) |
| Interest cost on obligation | (2.3) | (23.2) | **(25.5)** | (18.3) |
| Actuarial losses | (2.9) | (22.6) | **(25.5)** | (24.4) |
| Benefit paid | 4.6 | 8.4 | **13.0** | 9.6 |
| **At 31 December** | **(26.9)** | **(262.7)** | **(289.6)** | (224.3) |

(III) The changes in the fair value of plan assets under defined benefit schemes during the year are as follows:

| US$ millions | Consolidated 2010 | 2009 |
|---|---|---|
| At 1 January | **19.4** | 11.0 |
| Exchange translation | **1.1** | 1.2 |
| Expected return | **1.7** | 0.7 |
| Actuarial gains | **0.6** | 1.7 |
| Contributions by employer | **3.1** | 6.2 |
| Benefit paid | **(0.1)** | (1.4) |
| **At 31 December** | **25.8** | 19.4 |

The overall expected rate of return on assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

(IV) The major categories of plan assets as a percentage of the fair value of the total plan assets under defined benefit schemes are as follows:

| | Consolidated 2010 | 2009 |
|---|---|---|
| Indonesian equities | **30%** | 39% |
| Philippines debt securities | **36%** | 32% |
| Philippines equities | **34%** | 29% |

(V) Amounts for the current and previous four years for defined benefit schemes are as follows:

| | Consolidated | | | | |
|---|---|---|---|---|---|
| US$ millions | **2010** | 2009 | 2008 | 2007 | 2006 |
| Defined benefit obligations | **(26.9)** | (20.6) | (18.5) | (11.0) | (10.5) |
| Plan assets | **25.8** | 19.4 | 11.0 | 6.3 | 6.8 |
| Deficit | **(1.1)** | (1.2) | (7.5) | (4.7) | (3.7) |
| Experience adjustments on plan liabilities | **11.5** | (5.5) | (4.1) | (0.7) | (0.1) |
| Experience adjustments on plan assets | **(1.8)** | (0.8) | (0.6) | – | – |

(VI) The amount recognized in the income statement is analyzed as follows:

| US$ millions | Defined benefit schemes | Estimated liabilities for employee benefits | Consolidated **2010** | 2009 |
|---|---|---|---|---|
| Current service cost | 1.8 | 18.7 | **20.5** | 16.7 |
| Interest cost on obligation | 2.3 | 23.2 | **25.5** | 18.3 |
| Expected return on plan assets | (1.7) | – | **(1.7)** | (0.7) |
| Net actuarial losses recognized in the year | 2.3 | 22.6 | **24.9** | 22.7 |
| **Total**[(i)] | 4.7 | 64.5 | **69.2** | 57.0 |
| **Actual Return on Plan Assets** | | | **9%** | 9% |

(i) Included in cost of sales, distribution costs, administrative expenses and other operating expenses, net

(VII) Principal actuarial assumptions (weighted average) at 31 December are as follows:

| | Consolidated | |
|---|---|---|
| | **2010** | 2009 |
| Discount rate | **9%** | 11% |
| Expected return on plan assets | **9%** | 8% |
| Future salary increases | **9%** | 9% |
| Future pension increases | **9%** | 9% |
| Average remaining working lives of employees (years) | **16.2** | 16.2 |

(VIII) The Group expects to contribute US$1.3 million (2009: US$1.9 million) to its defined benefit pension plans in the next year.

### (C) Loans to Officers

During 2010 and 2009, there were no loans made by the Group to officers which require disclosure pursuant to Section 161B of the Hong Kong Companies Ordinance.

## 35. Directors' and Senior Executives' Remuneration

### (A) Directors' Remuneration

The table below shows the remuneration of the Directors on an individual basis.

**Directors' Remuneration – 2010**

| US$'000 | Non-performance based Salaries | Non-performance based Other benefits | Non-performance based Pension contributions | Performance based payments[i] | Equity-settled share option expense | Fees[ii] | Emoluments[iii] | 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | | |
| Anthoni Salim | 2,145 | – | – | – | – | 15 | – | **2,160** |
| **Executive Directors** | | | | | | | | |
| Manuel V. Pangilinan, *Managing Director and Chief Executive Officer* | 2,281 | 843 | 142 | 2,470 | 1,449 | – | – | **7,185** |
| Edward A. Tortorici | 753 | 167 | 724 | – | 851 | – | – | **2,495** |
| Robert C. Nicholson | 1,119 | 24 | 2 | 1,000 | 831 | – | – | **2,976** |
| **Non-executive Directors** | | | | | | | | |
| Ambassador Albert F. del Rosario | – | – | – | – | 3 | 221 | – | **224** |
| Sutanto Djuhar[iv] | – | – | – | – | – | – | – | **–** |
| Tedy Djuhar | – | – | – | – | – | 60 | – | **60** |
| Ibrahim Risjad | – | – | – | – | – | 5 | – | **5** |
| Benny S. Santoso | – | – | – | – | – | 113 | – | **113** |
| Napoleon L. Nazareno | 1,668 | – | – | 3,099 | 777 | 103 | – | **5,647** |
| **Independent Non-executive Directors** | | | | | | | | |
| Graham L. Pickles | – | – | – | – | – | 85 | – | **85** |
| Prof. Edward K.Y. Chen, *GBS, CBE, JP* | – | – | – | – | – | 85 | – | **85** |
| Sir David W.C. Tang, *KBE* | – | – | – | – | – | 35 | 77 | **112** |
| Jun Tang | – | – | – | – | 414 | 55 | – | **469** |
| **Total** | 7,966 | 1,034 | 868 | 6,569 | 4,325 | 777 | 77 | **21,616** |

**Directors' Remuneration – 2009**

| US$'000 | Salaries | Non-performance based<br>Other benefits | Non-performance based<br>Pension contributions | Performance based payments(i) | Equity-settled share option expense | Fees(ii) | Emoluments(iii) | 2009 Total |
|---|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | | |
| Anthoni Salim | 1,459 | – | – | – | – | 15 | – | 1,474 |
| **Executive Directors** | | | | | | | | |
| Manuel V. Pangilinan, *Managing Director and Chief Executive Officer* | 2,057 | 930 | 142 | 1,215 | 2,406 | – | – | 6,750 |
| Edward A. Tortorici | 1,242 | 137 | 921 | – | 1,459 | – | – | 3,759 |
| Robert C. Nicholson | 985 | 34 | 2 | 514 | 1,168 | – | – | 2,703 |
| **Non-executive Directors** | | | | | | | | |
| Ambassador Albert F. del Rosario | – | – | – | – | 44 | 181 | – | 225 |
| Sutanto Djuhar(iv) | – | – | – | – | – | – | – | – |
| Tedy Djuhar | – | – | – | – | – | 50 | – | 50 |
| Ibrahim Risjad | – | – | – | – | – | 5 | – | 5 |
| Benny S. Santoso | – | – | – | – | – | 108 | – | 108 |
| Napoleon L. Nazareno | 1,750 | 1 | – | 980 | 47 | 104 | – | 2,882 |
| **Independent Non-executive Directors** | | | | | | | | |
| Graham L. Pickles | – | – | – | – | – | 95 | – | 95 |
| Prof. Edward K.Y. Chen, *GBS, CBE, JP* | – | – | – | – | – | 75 | – | 75 |
| Sir David W.C. Tang, *KBE* | – | – | – | – | – | 35 | 77 | 112 |
| Jun Tang | – | – | – | – | 23 | 5 | – | 28 |
| **Total** | 7,493 | 1,102 | 1,065 | 2,709 | 5,147 | 673 | 77 | 18,266 |

(i) Performance based payments comprise performance bonuses and long-term monetary incentive awards
(ii) For meetings attended
(iii) For consultancy services provided to the Company
(iv) Sutanto Djuhar retired from the Board of Directors of the Company with effect from 31 May 2010

Included within the total Directors' remuneration is an amount of US$1.3 million (2009: US$1.2 million) paid by PLDT, an associated company, in respect of the services of the Managing Director and Chief Executive Officer.

## (B) Senior Executives' Remuneration

As similar remuneration schemes operate for the senior executives of the Group. In 2009 and 2010, none of the senior executives were among the Group's five highest earning employees. All of the five highest earning employees are the Company's Directors in 2009 and 2010.

## (C) Key Management Personnel Compensation

| US$ millions | Consolidated<br>**2010** | Consolidated<br>2009 |
|---|---|---|
| Non-performance based | | |
| – Salaries and benefits | **32.2** | 27.2 |
| – Pension contributions | **1.9** | 1.4 |
| Performance based | | |
| – Bonuses and long-term monetary incentive awards | **21.3** | 11.7 |
| Equity-settled share option expense | **6.8** | 9.2 |
| Fees | **0.1** | 0.1 |
| **Total** | **62.3** | 49.6 |

## (D) Share Options

Particulars of the share options of the Company and its subsidiary company granted to the Directors and senior executives of the Company and its subsidiary company at 31 December 2010 are set out below.

### (a) Particulars of the Company's Share Option Scheme

| | Share options held at 1 January 2010 | Share options exercised during the year | Share options granted during the year | **Share options held at 31 December 2010** | Share option exercise price per share[i] (HK$) | Market price per share at the date of grant[i] (HK$) | Market price per share during the period of exercise[i] (HK$) | Grant date | Fully vested by | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | | | |
| Manuel V. Pangilinan | 33,517,996 | (33,517,996) | – | **–** | 1.6698 | 1.67 | 5.07-7.09 | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| | 31,831,556 | – | – | **31,831,556** | 5.0569 | 5.06 | – | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| Edward A. Tortorici | 19,183,256 | (7,700,000) | – | **11,483,256** | 5.0569 | 5.06 | 7.00 | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| Robert C. Nicholson | 14,756,351 | (4,756,351) | – | **10,000,000** | 1.6698 | 1.67 | 4.76-5.44 | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| | 16,337,388 | – | – | **16,337,388** | 5.0569 | 5.06 | – | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| **Non-Executive Directors** | | | | | | | | | | | |
| Ambassador Albert F. del Rosario | 2,993,431 | (2,993,431) | – | **–** | 1.6698 | 1.67 | 7.00-7.47 | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| | 3,330,719 | – | – | **3,330,719** | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Benny S. Santoso | 2,993,431 | – | – | **2,993,431** | 1.6698 | 1.67 | – | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| | 3,330,719 | – | – | **3,330,719** | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Napoleon L. Nazareno | 3,330,000 | – | – | **3,330,000** | 5.0569 | 4.61 | – | 11 December 2009 | December 2010 | December 2010 | December 2019 |
| **Independent Non-Executive Directors** | | | | | | | | | | | |
| Graham L. Pickles | 3,330,719 | – | – | **3,330,719** | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Prof. Edward K.Y. Chen, *GBS, CBE, JP* | 1,412,394 | – | – | **1,412,394** | 1.6698 | 1.67 | – | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| | 3,330,719 | – | – | **3,330,719** | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Sir David W. C. Tang, *KBE* | 3,330,719 | (1,000,000) | – | **2,330,719** | 5.0569 | 5.06 | 6.67-7.25 | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Jun Tang | 3,330,000 | – | – | **3,330,000** | 5.0569 | 4.61 | – | 11 December 2009 | December 2011 | December 2011 | December 2019 |
| **Senior Executives** | 30,600,455 | (16,359,297) | – | **14,241,158** | 1.6698 | 1.67 | 5.12-7.14 | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| | 4,743,113 | (2,000,000) | – | **2,743,113** | 3.1072 | 3.08 | 5.14-5.26 | 7 June 2006 | December 2010 | June 2007 | June 2016 |
| | 44,500,938 | – | – | **44,500,938** | 5.0569 | 5.06 | – | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| | – | – | 5,400,000 | **5,400,000** | 5.31 | 5.31 | – | 18 June 2010 | June 2014 | June 2011 | June 2020 |
| **Total** | 226,183,904 | (68,327,075) | 5,400,000 | **163,256,829**[ii] | | | | | | | |

(i) Adjusted for the effect of the Company's rights issue completed in December 2009 for the prices prior to the trading of the Company's shares on an ex-rights basis on 29 October 2009

(ii) The number of outstanding share options vested and exercisable at 31 December 2010 was 109,785,560.

| | Share options held at 1 January 2009 | Share options exercised during the year | Adjustment for rights issue | Share options granted during the year | Share options held at 31 December 2009 | Share option exercise price per share[i] (HK$) | Market price per share at the date of grant[i] (HK$) | Market price per share during the period of exercise[i] (HK$) | Grant date | Fully vested by | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | | | | |
| Manuel V. Pangilinan | 31,800,000 | – | 1,717,996 | – | 33,517,996 | 1.6698 | 1.67 | – | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| | 30,200,000 | – | 1,631,556 | – | 31,831,556 | 5.0569 | 5.06 | – | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| Edward A. Tortorici | 3,560,000 | (3,560,000) | – | – | – | 1.6698 | 1.67 | 3.58 | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| | 18,200,000 | – | 983,256 | – | 19,183,256 | 5.0569 | 5.06 | – | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| Robert C. Nicholson | 14,000,000 | – | 756,351 | – | 14,756,351 | 1.6698 | 1.67 | – | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| | 15,500,000 | – | 837,388 | – | 16,337,388 | 5.0569 | 5.06 | – | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| **Non-Executive Directors** | | | | | | | | | | | | |
| Ambassador Albert F. del Rosario | 2,840,000 | – | 153,431 | – | 2,993,431 | 1.6698 | 1.67 | – | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| | 3,160,000 | – | 170,719 | – | 3,330,719 | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Benny S. Santoso | 2,840,000 | – | 153,431 | – | 2,993,431 | 1.6698 | 1.67 | – | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| | 3,160,000 | – | 170,719 | – | 3,330,719 | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Napoleon L. Nazareno | – | – | – | 3,330,000 | 3,330,000 | 5.0569 | 4.61 | – | 11 December 2009 | December 2010 | December 2010 | December 2019 |
| **Independent Non-Executive Directors** | | | | | | | | | | | | |
| Graham L. Pickles | 3,160,000 | – | 170,719 | – | 3,330,719 | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Prof. Edward K.Y. Chen, *GBS, CBE, JP* | 1,340,000 | – | 72,394 | – | 1,412,394 | 1.6698 | 1.67 | – | 1 June 2004 | June 2005 | June 2005 | May 2014 |
| | 3,160,000 | – | 170,719 | – | 3,330,719 | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Sir David W. C. Tang, *KBE* | 3,160,000 | – | 170,719 | – | 3,330,719 | 5.0569 | 5.06 | – | 5 September 2007 | September 2008 | September 2008 | September 2017 |
| Jun Tang | – | – | – | 3,330,000 | 3,330,000 | 5.0569 | 4.61 | – | 11 December 2009 | December 2011 | December 2011 | December 2019 |
| **Senior Executives** | 29,032,000 | – | 1,568,455 | – | 30,600,455 | 1.6698 | 1.67 | – | 1 June 2004 | December 2008 | June 2005 | May 2014 |
| | 4,500,000 | – | 243,113 | – | 4,743,113 | 3.1072 | 3.08 | – | 7 June 2006 | December 2010 | June 2007 | June 2016 |
| | 42,220,000 | – | 2,280,938 | – | 44,500,938 | 5.0569 | 5.06 | – | 5 September 2007 | September 2012 | September 2008 | September 2017 |
| **Total** | 211,832,000 | (3,560,000) | 11,251,904 | 6,660,000 | 226,183,904[ii] | | | | | | | |

(i) Adjusted for the effect of the Company's rights issue completed in December 2009 for the prices prior to the trading of the Company's shares on an ex-rights basis on 29 October 2009

(ii) The number of outstanding share options vested and exercisable at 31 December 2009 was 150,830,981

At the AGM held on 24 May 2004, the Company's shareholders approved a share option scheme (the Scheme) under which the Directors may, at their discretion, at any time during the period of the Scheme, grant Directors and executives of the Company's share options as part of the Company's long-term incentive program. The Scheme, which complies with the provisions set out in Chapter 17 of the Listing Rules, became effective on 24 May 2004. The Scheme will be valid for 10 years and will expire on 23 May 2014.

The maximum number of shares on which options may be granted may not exceed 10% of the Company's issued share capital, excluding any shares issued on the exercise of options at any time. The maximum number of shares in respect of which options may be granted under the Scheme to any one participant in any 12-month period is limited to 1% of the aggregate number of shares of the Company in issue at the time of the proposed grant of options to such participant.

The exercise price in relation to each share option offer shall be determined by the Directors at their absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the SEHK on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of the SEHK for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share on the date of grant. The terms of the Scheme provide that subject to any other restrictions on vesting imposed by the Directors, share options may be exercised under the Scheme at any time from the date of acceptance until the date of expiry. All options presently outstanding under the Scheme are subject to certain restrictions on exercise including a prohibition on exercise at any time during the period commencing one year after the date on which any option is accepted. Options which lapse or are cancelled prior to their expiry date are deleted from the register of options.

On 1 June 2004, 134,586,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$0.849 per share or an aggregate value of US$14.6 million for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue) | HK$1.76 per share[i] |
| Exercise price (before adjusting for the effect of the Company's 2009 rights issue) | HK$1.76 per share[i] |
| Expected volatility (based on historical volatility of the Company's shares commensurates with the average expected life of the options granted) | 55% |
| Option life | 10 years |
| Expected dividend yield | 1% per annum |
| Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes) | 4.06% per annum |

Taking into account the expected turnover rate of the Directors and senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be around 6.61 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 75% higher than the exercise price.

On 1 June 2006, 4,500,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$1.554 per share or an aggregate value of US$0.9 million for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue) | HK$3.25 per share[ii] |
| Exercise price (before adjusting for the effect of the Company's 2009 rights issue) | HK$3.275 per share[iii] |
| Expected volatility (based on historical volatility of the Company's shares commensurates with the average expected life of the options granted) | 50% |
| Option life | 10 years |
| Expected dividend yield | 1% per annum |
| Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes) | 4.71% per annum |

Taking into account the expected turnover rate of the senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be around 6.79 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 100% higher than the exercise price.

On 5 September 2007, 121,920,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$2.596 per share or an aggregate value of US$40.6 million for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue) | HK$5.33 per share[iv] |
| Exercise price (before adjusting for the effect of the Company's 2009 rights issue) | HK$5.33 per share[iv] |
| Expected volatility (based on historical volatility of the Company's shares commensurates with the average expected life of the options granted) | 45% |
| Option life | 10 years |
| Expected dividend yield | 1% per annum |
| Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes) | 4.40% per annum |

Taking into account the expected turnover rate of the Directors and senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be around 7.60 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 150% higher than the exercise price.

On 11 December 2009, 6,660,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, a Towers Watson Company, based on the binomial model, was HK$1.935 per share or an aggregate value of US$1.7 million for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant | HK$4.61 per share |
| Exercise price | HK$5.0569 per share |
| Expected volatility (based on historical volatility of the Company's shares commensurates with the average expected life of the options granted) | 45% |
| Option life | 10 years |
| Expected dividend yield | 2% per annum |
| Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes) | 2.20% per annum |

Taking into account the expected turnover rate of the Directors and the early exercise behavior, the average expected life of the options granted was estimated to be around 8 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 250% higher than the exercise price.

On 18 June 2010, 5,400,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Towers Watson Hong Kong Limited, based on the binomial model, was HK$2.28 per share or an aggregate value of US$1.6 million for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant | HK$5.31 per share |
| Exercise price | HK$5.31 per share |
| Expected volatility (based on historical volatility of the Company's shares commensurates with the average expected life of the options granted) | 45% |
| Option life | 10 years |
| Expected dividend yield | 2% per annum |
| Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes) | 2.3% per annum |

Taking into account the expected turnover rate of the senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be around 8 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 250% higher than the exercise price.

The binomial model, applied for determining the estimated values of the share options granted under the Scheme, was developed for use in estimating the fair value of the traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the Company's share options have characteristics significantly different from those of the traded options, changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Details of the Group's accounting policy in respect of the share options granted are set out in Note 2(D)(r)(III) to the financial statements.

(i) HK$1.6698 after adjusting for the effect of the Company's rights issue in 2009
(ii) HK$3.0834 after adjusting for the effect of the Company's rights issue in 2009
(iii) HK$3.1072 after adjusting for the effect of the Company's rights issue in 2009
(iv) HK$5.0569 after adjusting for the effect of the Company's rights issue in 2009

## (b) Particulars of MPIC's Share Option Scheme

| | Share options held at 1 January 2010 | Share options granted during the year | Share options exercised during the year | Share options cancelled during the year | **Share options held at 31 December 2010** | Share option exercise price per share (Peso) | Market price per share at the date of grant (Peso) | Market price per share during the period of exercise (Peso) | Grant date | Fully vested by | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | | | | |
| Manuel V. Pangilinan | 7,500,000 | – | – | – | **7,500,000** | 2.12 | 2.10 | – | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | 7,500,000 | – | – | – | **7,500,000** | 2.73 | 2.65 | – | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| Edward A. Tortorici | 5,000,000 | – | – | – | **5,000,000** | 2.12 | 2.10 | – | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | 5,000,000 | – | – | – | **5,000,000** | 2.73 | 2.65 | – | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| Ambassador Albert F. del Rosario | 2,500,000 | – | (2,500,000) | – | **–** | 2.12 | 2.10 | 3.69 | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | 2,500,000 | – | (2,500,000) | – | **–** | 2.73 | 2.65 | 3.69 | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| Robert C. Nicholson | – | 5,000,000 | – | – | **5,000,000** | 2.73 | 2.65 | – | 2 July 2010 | July 2013 | January 2011 | July 2015 |
| **Senior Executives** | 36,135,000 | – | (14,810,000) | (7,750,000) | **13,575,000** | 2.12 | 2.10 | 2.95-4.34 | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | 37,870,000 | – | (12,500,000) | (8,370,000) | **17,000,000** | 2.73 | 2.65 | 3.76-4.34 | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| | – | 89,300,000 | – | – | **89,300,000** | 2.73 | 2.65 | – | 2 July 2010 | July 2013 | January 2011 | July 2015 |
| | – | 10,000,000 | – | – | **10,000,000** | 3.50 | 3.47 | – | 21 December 2010 | August 2013 | August 2011 | August 2015 |
| **Total** | 104,005,000 | 104,300,000 | (32,310,000) | (16,120,000) | **159,875,000** | | | | | | | |

| | Share options held at 1 January 2009 | Share options granted during the year | Share options exercised during the year | Share options cancelled during the year | Share options held at 31 December 2009 | Share option exercise price per share (Peso) | Market price per share at the date of grant (Peso) | Market price per share during the period of exercise (Peso) | Grant date | Fully vested by | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | | | | |
| Manuel V. Pangilinan | 7,500,000 | – | – | – | 7,500,000 | 2.12 | 2.10 | – | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | – | 7,500,000 | – | – | 7,500,000 | 2.73 | 2.65 | – | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| Edward A. Tortorici | 5,000,000 | – | – | – | 5,000,000 | 2.12 | 2.10 | – | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | – | 5,000,000 | – | – | 5,000,000 | 2.73 | 2.65 | – | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| Ambassador Albert F. del Rosario | 2,500,000 | – | – | – | 2,500,000 | 2.12 | 2.10 | – | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | – | 2,500,000 | – | – | 2,500,000 | 2.73 | 2.65 | – | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| **Senior Executives** | 46,000,000 | – | (7,365,000) | (2,500,000) | 36,135,000 | 2.12 | 2.10 | 2.85-6.00 | 9 December 2008 | January 2010 | January 2009 | January 2013 |
| | – | 47,925,245 | (6,580,000) | (3,475,245) | 37,870,000 | 2.73 | 2.65 | 3.25-6.00 | 10 March 2009 | March 2010 | March 2009 | March 2013 |
| **Total** | 61,000,000 | 62,925,245 | (13,945,000) | (5,975,245) | 104,005,000 | | | | | | | |

At the annual general meeting held on 1 June 2007, the Company's shareholders approved a share option scheme under which MPIC's directors may, at their discretion, invite executives of MPIC upon the regularization of employment of eligible executives, to take up share options of MPIC to obtain an ownership interest in MPIC and for the purpose of long-term employment motivation. The scheme was subsequently approved by MPIC's shareholders and became effective on 14 June 2007 and would be valid for 10 years. At a special shareholders' meetings of MPIC held on 20 February 2009, MPIC's shareholders approved the amendments to MPIC's share option scheme which include (i) a refreshment of the number of MPIC options that may be granted to take into account of the increase in the capital stock of MPIC or other changes to its capital structure which have either been approved by the shareholders, implemented, in process, or which may potentially be approved or implemented in the future; and (ii) the inclusion in MPIC's share option plan of a requirement for MPIC to comply with relevant corporate requirements and regulations applicable to MPIC's parent company. The amendments and the maximum number of MPIC's share options of 941,676,681 (representing 10% of MPIC's shares in issue at the date of approval of the proposed refreshment) were subsequently approved by the Company's shareholders in the annual general meeting held on 3 June 2009.

The maximum number of shares on which options may be granted under the scheme may not exceed 10% of the issued share capital of MPIC at 1 June 2007, at the date on which the MPIC's share option scheme was approved by the Company's shareholders on the annual general meeting held on 1 June 2007. 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 12-month period shall not exceed 1% of the shares in issue at the relevant time.

The exercise price in relation to each option granted under the scheme shall be determined by MPIC's directors at their absolute discretion, but in any event shall not be less than (i) the closing price of MPIC's shares for one or more board lots of such MPIC's shares on the Philippine Stock Exchange (PSE) on the option grant date; (ii) the average closing price of MPIC's shares for one or more board lots of such MPIC's shares on the PSE for the five business days on which dealings in the MPIC's shares are made immediately preceding the option grant date; or (iii) the par value of the MPIC's shares, whichever is higher.

On 9 December 2008, 61,000,000 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on the Black-Scholes-Merton formula, was Peso 0.37 per share or an aggregate value of Pesos 22.8 million (US$0.5 million) for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant | Pesos 2.10 per share |
| Exercise price | Pesos 2.12 per share |
| Expected volatility (based on historical volatility of the MPIC's shares commensurates with the average expected life of the options granted) | 76% |
| Option life | 4 years |
| Expected dividend yield | Nil |
| Average risk-free interest rate (based on the Philippine government zero coupon bond) | 6.26% per annum |

On 10 March 2009, 62,924,245 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on the Black-Scholes-Merton formula, was Peso 0.51 per share or an aggregate value of Pesos 31.8 million (US$0.7 million) for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant | Pesos 2.65 per share |
| Exercise price | Pesos 2.73 per share |
| Expected volatility (based on historical volatility of the MPIC's shares commensurates with the average expected life of the options granted) | 64% |
| Option life | 4 years |
| Expected dividend yield | Nil |
| Average risk-free interest rate (based on the Philippine government zero coupon bond) | 4.53% per annum |

On 2 July 2010, 94,300,000 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on the Black-Scholes-Merton formula, was Peso 0.78 per share or an aggregate value of Pesos 73.3 million (US$1.6 million) for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant | Pesos 2.65 per share |
| Exercise price | Pesos 2.73 per share |
| Expected volatility (based on historical volatility of the MPIC's shares commensurates with the average expected life of the options granted) | 63% |
| Option life | 5 years |
| Expected dividend yield | 0.38% |
| Average risk-free interest rate (based on the Philippine government zero coupon bond) | 4.91% per annum |

On 21 December 2010, 10,000,000 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on the Black-Scholes-Merton formula, was Peso 1.13 per share or an aggregate value of Pesos 11.2 million (US$0.2 million) for all options granted. The assumptions used were as follows:

| | |
|---|---|
| Share price at the date of grant | Pesos 3.47 per share |
| Exercise price | Pesos 3.50 per share |
| Expected volatility (based on historical volatility of the MPIC's shares commensurates with the average expected life of the options granted) | 63% |
| Option life | 5 years |
| Expected dividend yield | 0.29% |
| Average risk-free interest rate (based on the Philippine government zero coupon bond) | 2.73% per annum |

The Black-Scholes option pricing model, applied for determining the estimated values of the share options granted under MPIC's scheme, requires input of higher subjective assumptions, including the expected stock price volatility. Changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Details of the Group's accounting policy in respect of the share options granted are set out in Note 2D(r)(III) to the Consolidated Financial Statements.

## 36. Related Party Transactions

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

(A) In April 2010, the Company purchased US$20.0 million of U.S. dollars from Philex at a rate of Pesos 45.03 per U.S. dollar for converting part of the Company's peso-denominated funds into U.S. dollars for working capital requirements.

(B) In December 2010, Metro Pacific Tollways Corporation (MPTC), a subsidiary company of MPIC, acquired 80,000 shares of Metro Strategic Infrastructure Holdings, Inc. (MSIHI), representing a 20% interest in MSIHI and certain deposits for subscription for a total consideration of Pesos 27.6 million (US$0.6 million) from Ambassador Albert F. del Rosario, a Director of the Company.

(C) Asia Link B.V. (ALBV), a wholly-owned subsidiary company of the Company, has a technical assistance agreement with Smart Communications, Inc. (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 2008, subject to renewal upon mutual agreement between the parties. The agreement provides for payments of technical service fees equivalent to 1% (2009: 1%) of the consolidated net revenue of Smart.

The fee under the above arrangement amounted to Pesos 615 million (US$13.7 million) for the year ended 31 December 2010 (2009: Pesos 634 million or US$13.3 million). At 31 December 2010, the outstanding technical service fee payable amounted to Pesos 200 million (US$4.6 million) (2009: Pesos 188 million or US$4.1 million).

(D) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated companies, joint ventures 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**

| | Consolidated | |
|---|---|---|
| For the year ended 31 December<br>US$ millions | **2010** | 2009 |
| **Income Statement Items** | | |
| Sales of finished goods | | |
| - to associated companies and joint ventures | **48.0** | 30.3 |
| - to affiliated companies | **94.4** | 64.1 |
| Purchases of raw materials | | |
| - from associated companies and joint ventures | **55.9** | 44.2 |
| - from affiliated companies | **23.6** | 15.6 |
| Management and technical services fee income and royalty income | | |
| - from associated companies and joint ventures | **1.6** | 1.0 |
| - from affiliated companies | **11.0** | 7.8 |
| Insurance expenses | | |
| - to affiliated companies | **2.2** | 2.9 |
| Rental expenses | | |
| - to affiliated companies | **1.2** | 1.0 |
| Transportation and pump services expenses | | |
| - to affiliated companies | **0.1** | 0.4 |

Approximately 3% (2009: 3%) of Indofood's sales and 3% (2009: 2%) of its purchases were transacted with these related companies.

**Nature of Balances**

| | Consolidated | |
|---|---|---|
| At 31 December<br>US$ millions | **2010** | 2009 |
| **Statement of Financial Position Items** | | |
| Accounts receivable – trade | | |
| - from associated companies and joint ventures | **3.5** | 3.3 |
| - from affiliated companies | **13.7** | 8.7 |
| Accounts receivable – non-trade | | |
| - from associated companies and joint ventures | **1.9** | – |
| - from affiliated companies | **12.3** | 12.2 |
| Accounts payable – trade | | |
| - to associated companies and joint ventures | **10.3** | 6.2 |
| - to affiliated companies | **3.1** | 2.6 |
| Accounts payable – non-trade | | |
| - to associated companies and joint ventures | **0.5** | 0.2 |
| - to affiliated companies | **29.1** | 30.5 |

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 60 to 67.

(E) For the year ended 31 December 2010, MPIC's subsidiary company, Maynilad, entered into certain construction contracts with DMCI Holdings Inc. (DMCI) (a 44.6% shareholder of DMCI-MPIC Water Company, Inc. (DMWC), Maynilad's parent company) for the latter's construction of water infrastructure for Maynilad. On 23 March 2009, Maynilad formally entered into (i) a framework agreement with D.M. Consunji, Inc. (Consunji), a subsidiary company of DMCI, in relation to the provision of engineering, procurement and construction services by Consunji to Maynilad for the period from 23 March 2009 to 31 December 2011 and (ii) a lease agreement with DMCI Project Developers, Inc. (DMCIPD), a subsidiary company of DMCI, for the renting of certain premises in the Makati City by DMCIPD to Maynilad for the period from 1 February 2009 to 31 January 2012. These 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 68 to 69.

All significant transactions with DMCI group, 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 year ended 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| **Income Statement Items** | | |
| Rental expenses | **0.1** | 0.1 |
| **Capital Expenditure Items** | | |
| Construction services for water infrastructure obtained | **36.5** | 47.5 |

**Nature of Balances**

| At 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| **Statement of Financial Position Items** | | |
| Accounts payable – trade | **5.3** | 8.0 |

(F) For the year ended 31 December 2010, MPIC's subsidiary company, MNTC, collected toll fees through TMC, an associated company of MPIC.

All significant transactions with TMC, 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 year ended 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| **Income Statement Items** | | |
| Operator's fee | **29.7** | 28.0 |
| Management income | **1.2** | 1.1 |
| Guarantee income | **0.5** | 0.4 |
| Interest income | **0.2** | 0.3 |

**Nature of Balances**

| At 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| **Statement of Financial Position Items** | | |
| Accounts receivable – trade | **2.9** | 3.1 |
| Accounts payable – trade | **5.9** | 6.1 |

(G) For the year ended 31 December 2010, MPIC and its subsidiary companies were charged for electricity expenses by Meralco, an associated company of the Group.

All significant transactions with Meralco, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

**Nature of Transactions**

| | Consolidated | |
|---|---|---|
| For the year ended 31 December<br>US$ millions | **2010** | 2009 |
| **Income Statement Items** | | |
| Electricity expenses | | |
| - to associated companies[(i)] | **11.8** | 2.2 |

(i) Information in respect of electricity expenses charged by an associated company relates to 2 October 2009 (date when Meralco became an associated company of the Group) and after.

(H) For the year ended 31 December 2010, MPIC and its subsidiary companies have the following transactions with PLDT, an associated company of the Group.

All significant transactions with PLDT, 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 year ended 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| **Income Statement Items** | | |
| Income from utility facilities | **1.4** | – |
| Telephone expenses | **0.3** | 0.2 |
| Rental expenses | **0.1** | 0.1 |

**Nature of Balances**

| At 31 December<br>US$ millions | **2010** | 2009 |
|---|---|---|
| **Statement of Financial Position Items** | | |
| Accounts payable – trade | **0.3** | 0.2 |

## 37. Financial Instruments by Category and Fair Value Hierarchy

### (A) Financial Instruments by Category

#### (a) Financial Assets

| US$ millions | Consolidated 2010 Loans and receivables | Consolidated 2010 Available-for-sale financial assets | Consolidated 2010 Total | Consolidated 2009 Loans and receivables | Consolidated 2009 Available-for-sale financial assets | Consolidated 2009 Total | Company 2010 Loans and receivables | Company 2009 Loans and receivables |
|---|---|---|---|---|---|---|---|---|
| Accounts and other receivables (Non-current) | **23.8** | **–** | **23.8** | 6.6 | – | 6.6 | **–** | – |
| Available-for-sale assets (Non-current) | **–** | **13.8** | **13.8** | – | 2.1 | 2.1 | **–** | – |
| Other non-current assets | **66.8** | **–** | **66.8** | 58.9 | – | 58.9 | **–** | – |
| Cash and cash equivalents | **1,538.8** | **–** | **1,538.8** | 936.6 | – | 936.6 | **256.2** | 262.2 |
| Restricted cash and pledged deposits | **53.4** | **–** | **53.4** | 29.2 | – | 29.2 | **–** | – |
| Available-for-sale assets (Current) | **–** | **62.8** | **62.8** | – | 40.4 | 40.4 | **–** | – |
| Accounts and other receivables (Current) | **427.5** | **–** | **427.5** | 580.3 | – | 580.3 | **–** | – |
| Amounts due from subsidiary companies | **–** | **–** | **–** | – | – | – | **2,079.6** | 2,062.9 |
| **Total** | **2,110.3** | **76.6** | **2,186.9** | 1,611.6 | 42.5 | 1,654.1 | **2,335.8** | 2,325.1 |

#### (b) Financial Liabilities

At 31 December 2010, the deferred liabilities and provisions accounts include US$14.2 million (2009: US$2.6 million) of derivative liabilities measured at fair value. Details of the corresponding derivative financial instruments, qualified for cash flow hedge accounting, are disclosed in the Financial Review section on pages 74 to 77. The following table summarizes the financial liabilities measured at amortized cost at the end of the reporting period.

| US$ millions | Consolidated 2010 Financial liabilities at amortized cost | Consolidated 2009 Financial liabilities at amortized cost | Company 2010 Financial liabilities at amortized cost | Company 2009 Financial liabilities at amortized cost |
|---|---|---|---|---|
| Accounts payable, other payables and accruals | **707.5** | 628.2 | **–** | – |
| Short-term borrowings | **645.4** | 829.7 | **–** | – |
| Current portion of deferred liabilities and provisions | **26.9** | 26.2 | **–** | – |
| Long-term borrowings | **2,793.8** | 2,855.6 | **–** | – |
| Deferred liabilities and provisions | **181.4** | 196.4 | **–** | – |
| Amounts due to subsidiary companies | **–** | – | **697.4** | 782.4 |
| Other payables and accruals | **–** | – | **0.9** | 0.8 |
| Loans from subsidiary companies | **–** | – | **863.7** | 729.9 |
| **Total** | **4,355.0** | 4,536.1 | **1,562.0** | 1,513.1 |

(I) Hedge effectiveness of cash flow hedges and hedges of net investments in foreign operations

The movements of the Group's unrealized gains/(losses) on cash flow hedges in relation to its derivative financial instruments included in deferred liabilities and provision for the years ended 31 December 2010 are as follows.

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| At 1 January | **(1.3)** | (1.1) |
| Changes in fair value of cash flow hedges and hedges of net investments in foreign operations | **(18.4)** | (4.8) |
| Transferred to consolidated income statement(i) | **11.1** | 4.6 |
| Subtotal | **(8.6)** | (1.3) |
| Attributable to taxation and non-controlling interests | **0.2** | 0.5 |
| **At 31 December** | **(8.4)** | (0.8) |

(i) In 2010, the amounts transferred to the consolidated income statement represent US$5.1 million (2009: US$3.8 million) included in net borrowing costs and US$6.0 million (2009: US$0.8 million) included in other operating (expense)/income, net.

(II) In 2010 and 2009, the ineffective portions of changes in fair value of cash flow hedges and hedges of net investments in foreign operations are immaterial.

## (B) Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly
- Level 3: fair value measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs)

The Group held the following financial instruments measured at fair value as at the end of the reporting period:

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | | | | 2009 | | | |
| US$ million | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale assets | | | | | | | | |
| - Listed equity investments | **51.1** | **–** | **–** | **51.1** | 34.9 | – | – | 34.9 |
| - Listed debentures | **10.0** | **–** | **–** | **10.0** | 0.3 | – | – | 0.3 |
| - Unlisted investments | **–** | **4.7** | **10.8** | **15.5** | – | – | 7.3 | 7.3 |
| Derivative liabilities(i) | **–** | **(14.2)** | **–** | **(14.2)** | – | (2.6) | – | (2.6) |
| **Net Amount** | **61.1** | **(9.5)** | **10.8** | **62.4** | 35.2 | (2.6) | 7.3 | 39.9 |

(i) Included within Deferred liabilities and provisions

The movements in unlisted available-for-sale assets during the year in the balance of Level 3 fair value measurements are as follows:

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| At 1 January 2010 | **7.3** | 34.5 |
| Exchange translation | **0.4** | 3.8 |
| Acquisition of subsidiary companies (Note 32(E)) | **3.1** | – |
| Additions | **–** | 5.2 |
| Net unrealized gains recognized in other comprehensive income during the year | **–** | 3.6 |
| Disposal | **–** | (39.8) |
| **At 31 December 2010** | **10.8** | 7.3 |
| Total gains for the year reclassified from other comprehensive income on disposal | **–** | 3.6 |

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 38. Capital and Financial Risk Management

### (A) Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to ensure that it maintains an optimal capital structure for supporting the stability and growth of its business and maximizing shareholders' value.

The Group manages its capital structure, and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, repurchase shares or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity. The Group's policy is to keep the gearing ratio at an optimal level which supports its business. The Group's net debt includes short-term borrowings and long-term borrowings, less cash and cash equivalents and restricted cash and pledged deposits. The total equity includes equity attributable to owners of the parent and non-controlling interests.

| | Consolidated | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Short-term borrowings | **645.4** | 829.7 |
| Long-term borrowings | **2,793.8** | 2,855.6 |
| Less: Cash and cash equivalents | **(1,538.8)** | (936.6) |
| Less: Restricted cash and pledged deposits | **(53.4)** | (29.2) |
| Net debt | **1,847.0** | 2,719.5 |
| Equity attributable to owners of the parent | **2,575.2** | 1,916.2 |
| Non-controlling interests | **3,036.9** | 2,122.9 |
| Total equity | **5,612.1** | 4,039.1 |
| Gearing ratio (times) | **0.33** | 0.67 |

## (B) Financial Risk Management

The Group's principal financial instruments include the various financial assets (which comprise accounts receivable, other receivables, available-for-sale assets, cash and cash equivalents, restricted cash and pledged deposits) and financial liabilities (which comprise accounts payable, other payables and accruals, short-term borrowings, long-term borrowings and deferred liabilities and provisions). The main purpose of the cash and cash equivalents, and short-term and long-term borrowings is to finance the Group's operations. The other financial assets and liabilities, such as accounts receivable and accounts payable, mainly arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign exchange contracts and interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's sources of finance and its operations.

It is, and has been, throughout the year, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are market risk (including currency risk and price risk), credit risk, liquidity risk and fair value and cash flow interest rate risks. The Company's Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are set out in Note 2(D)(u) to the Consolidated Financial Statements.

### (a) Market Risk

*(I) Currency Risk*

To manage the Group's foreign exchange risk arising from future commercial transactions, recognized assets and liabilities, and to improve investment and cash flow planning, in addition to natural hedges, the Group enters into and engages in foreign exchange contracts for the purpose of managing its foreign exchange rate exposures emanating from business, transaction specific, as well as currency translation risks and reducing and/or managing the adverse impact of changes in foreign exchange rates on the Group's operating results and cash flows. However, some of the aforementioned derivative instruments of the Group do not qualify as effective hedges and therefore are not designated as cash flow hedges for accounting purposes in accordance with the provisions of HKAS 39.

The following table summarizes the Group's exposure at the end of the reporting period to currency risk arising from recognized financial assets and liabilities denominated in U.S. dollars, which being different from the functional currencies of the peso and the rupiah used by the Group's subsidiary companies in the Philippines and Indonesia.

| | **Consolidated** | |
|---|---|---|
| US$ millions | **2010** | 2009 |
| Account receivables and other receivables | **40.5** | 37.4 |
| Cash and cash equivalents | **374.1** | 261.6 |
| Restricted cash and pledged deposits | **12.0** | 12.0 |
| Short-term borrowings and long-term borrowings | **(731.6)** | (652.3) |
| Accounts payable, other payables and accruals | **(91.2)** | (79.8) |
| **Net Amount** | **(396.2)** | (421.1) |

The following table demonstrates the sensitivity arising from the Group's financial assets and liabilities as listed above to a reasonably possible change in the exchange rates of rupiah and peso, with all other variables held constant, of the Group's profit attributable to owners of the parent and retained earnings (due mainly to foreign exchange gains/losses on translation of the U.S. dollar denominated financial assets and liabilities). There is no significant impact on the other components of the Group's equity.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| US$ millions | **(Depreciation)/ appreciation against the U.S. dollar (%)** | **(Decrease)/ increase in profit attributable to owners of the parent and retained earnings** | (Depreciation)/ appreciation against the U.S. dollar (%) | (Decrease)/ increase in profit attributable to owners of the parent and retained earnings |
| Peso | **2.0** | **0.2** | 0.4 | 0.1 |
| Rupiah | **(2.8)** | **(3.9)** | (1.1) | (1.5) |

*(II) Price Risk*

The Group's price risk principally relates to the changes in the market value of its equity investments. In addition, the Group is also exposed to commodity price risk arises from its purchases and forward contracts in respect of CPO. Nevertheless, there is no significant impact regarding these purchases and forward contracts on the Group's profit or loss and other components of the Group's equity.

**(b) Credit Risk**

For the consumer food products business, the Group has credit risk arising from the credit given to the customers, but it has policies in place to ensure that wholesales of products are made to creditworthy customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any particular customer, such as requiring sub-distributors to provide bank guarantees. For the water distribution business, the Group allows 60 days of credit to its customers. For the toll roads business, the Group collects its toll fees through its associated company, TMC, by cash, the users' prepaid and reloadable electronic toll collection devices and through credit card payment arrangements. In addition, receivable balances are monitored on an ongoing basis to reduce the Group's exposure to bad debts.

The credit risk of the Group's other financial assets, which include cash and cash equivalents and certain investments in debt securities classified as available-for-sale assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments and the unrealized losses, if any, on available-for-sale assets charged directly to the Group's equity.

The Group has no significant concentrations of credit risk.

### (c) Liquidity Risk

The Group manages its liquidity profile to be able to finance its capital expenditure and service its maturing debts by maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

The Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, and debt capital and equity capital issues.

The maturity profile of the Group's financial liabilities at 31 December 2010 based on the contractual undiscounted payments, including future interest payments, is as follows.

| | Accounts payable, other payables and accruals | | Borrowings | | Deferred liabilities and provisions | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|
| US$ millions | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Not exceeding one year | **707.5** | 628.2 | **846.4** | 1,030.7 | **67.7** | 37.2 | **1,621.6** | 1,696.1 |
| More than one year but not exceeding two years | **–** | – | **825.7** | 969.7 | **23.8** | 50.0 | **849.5** | 1,019.7 |
| More than two years but not exceeding five years | **–** | – | **1,297.4** | 1,670.7 | **60.5** | 101.1 | **1,357.9** | 1,771.8 |
| More than five years | **–** | – | **1,385.8** | 814.6 | **251.4** | 272.8 | **1,637.2** | 1,087.4 |
| **Total** | **707.5** | 628.2 | **4,355.3** | 4,485.7 | **403.4** | 461.1 | **5,466.2** | 5,575.0 |

### (d) Fair Value and Cash Flow Interest Rate Risks

The Group's interest rate risk arises from interest-bearing borrowings, cash and cash equivalents, restricted cash and pledged deposits. Borrowings and cash and cash equivalents with variable interest rate terms expose the Group to cash flow interest rate risk. Borrowings and cash and cash equivalents with fixed interest rate terms expose the Group to fair value interest rate risk. At 31 December 2010, 56.6% (2009: 37.7%) of the Group's borrowings were effectively at fixed rates.

The following table demonstrates the sensitivity arising from the Group's financial assets and liabilities at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit attributable to owners of the parent and retained earnings (through the impact on variable rate borrowings and cash and cash equivalents). There is no significant impact on the other components of the Group's equity.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| US$ millions | **Increase (Basis points)** | **Decrease in profit attributable to owners of the parent and retained earnings** | Increase (Basis points) | Decrease in profit attributable to owners of the parent and retained earnings |
| Interest rates for | | | | |
| - U. S. dollar | **25** | **(0.3)** | 25 | (1.9) |
| - Rupiah | **75** | **(0.4)** | 100 | (1.0) |
| - Peso | **50** | **(0.6)** | 100 | (2.2) |

## 39. Comparative Amounts

As explained in Note 2(B), due to the adoption of the amendments to HKAS 17 included in Improvements to HKFRSs 2009 during the year, the presentation of certain balances has been revised to comply with such changes. Accordingly, certain comparative amounts have been reclassified or restated to conform with the current year's accounting treatments and presentation and a third statement of financial position as at 1 January 2009 has been presented.

## 40. Approval of the Consolidated Financial Statements

The Audited Consolidated Financial Statements of the Company were approved and authorized for issue by the Board of Directors on 21 March 2011.

# Glossary of Terms



## Financial Terms

**CONCESSION ASSETS** Infrastructure assets used under service concession arrangements with the governments for providing services to the public

**DEFINED BENEFIT SCHEME** A retirement scheme in which the rules specify the benefits to be paid and the scheme is financed accordingly. Generally, benefits are determined by a formula that takes into account of the final salary and the number of years of service of each member

**DEFINED CONTRIBUTION SCHEME** A retirement scheme under which the benefits are directly determined by the value of contributions paid in respect of each member

**EBIT** Earnings before interest and tax

**EBIT MARGIN** EBIT/turnover

**EBITDA** Earnings before interest, tax, depreciation and amortization

**EBITDA MARGIN** EBITDA/turnover

**GROSS PROFIT MARGIN** Gross profit/turnover

**IMPAIRMENT PROVISION** Provision made to reduce the carrying amount of an asset to its recoverable amount

**NAV** Net Asset Value

**NET ASSETS** Total assets less total liabilities, equivalent to total equity

**NET CURRENT ASSETS/LIABILITIES** Current assets less current liabilities

**NET DEBT** Total of short-term and long-term borrowings, net of cash and cash equivalents and pledged deposits and restricted cash

**RECURRING PROFIT** Profit attributable to owners of the parent excluding foreign exchange and derivative gains/losses, gain/loss on changes in fair value of plantations and non-recurring items

## Financial Ratios

**BASIC EARNINGS PER SHARE** Profit attributable to owners of the parent/weighted average number of shares in issue during the year

**CURRENT RATIO** Current assets/current liabilities

**DILUTED EARNINGS PER SHARE** Profit attributable to owners of the parent adjusted for the effect of assumed conversion of all dilutive potential ordinary shares/weighted average number of shares in issue during the year plus the weighted average number of ordinary shares which would be issued on the assumed conversion of all dilutive potential ordinary shares

**DIVIDEND PAYOUT RATIO** Ordinary share dividends paid and recommended/recurring profit

**GEARING RATIO** Net debt/total equity

**INTEREST COVER** Profit before taxation (excluding foreign exchange and derivative gains/losses, gain/loss on changes in fair value of plantations and non-recurring items) and net borrowing costs/net borrowing costs

**RETURN ON AVERAGE EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** Recurring profit/average equity attributable to owners of the parent

**RETURN ON AVERAGE NET ASSETS** Recurring profit/average net assets

## Other

**ADR** American Depositary Receipts

**AGM** Annual General Meeting

**ARPU** Average Revenue Per User

**DSL** Digital Subscriber Line

**GAAP** Generally Accepted Accounting Principles

**GSM** Global System for Mobile Communications

**HKAS** Hong Kong Accounting Standards

**HKFRS** Hong Kong Financial Reporting Standards

**HKICPA** Hong Kong Institute of Certified Public Accountants

**HK (IFRIC) – INT** Hong Kong (International Financial Reporting Interpretations Committee) – Interpretation

**HK Int** Hong Kong Interpretation

**IDX** Indonesia Stock Exchange

**IFRS** International Financial Reporting Standards

**LISTING RULES** The Rules Governing the Listing of Securities on SEHK

**NYSE** The New York Stock Exchange

**PSE** The Philippine Stock Exchange, Inc.

**SEHK** The Stock Exchange of Hong Kong Limited

**SGM** Special General Meeting

**3G** The third generation of mobile phone technology

# Information for Investors



## Financial Diary

| | |
|---|---|
| Preliminary announcement of 2010 results | 21 March 2011 |
| Annual report posted to shareholders | 27 April 2011 |
| Last day to register for final dividend | 27 May 2011 |
| Annual General Meeting | 1 June 2011 |
| Payment of final dividend | 23 June 2011 |
| Preliminary announcement of 2011 interim results | 22 August 2011* |
| Interim report posted to shareholders | 30 September 2011* |
| Financial year-end | 31 December 2011 |
| Preliminary announcement of 2011 results | 21 March 2012* |

* Subject to confirmation

## Head Office

24th Floor, Two Exchange Square
8 Connaught Place
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Telephone : (852) 2842 4388
Fax : (852) 2845 9243
E-mail : info@firstpacific.com

## Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12, Bermuda
Telephone : (1 441) 295 2244
Fax : (1 441) 295 8666

## Web Site

www.firstpacific.com

## Share Information

First Pacific shares are listed on The Stock Exchange of Hong Kong Limited and are traded over the counter in the United States in the form of American Depositary Receipts

Listing date : 12 September 1988
Par value : U.S.1 cent per share
Lot size : 2,000 shares
Number of ordinary shares issued: 3,902,373,478*

* after deduction of 362,000 repurchased ordinary shares cancelled subsequent to 31 December 2010

## Stock Codes

SEHK : 00142
Bloomberg : 142 HK
Thomson Reuters : 0142.HK

## American Depositary Receipts (ADRs) Information

Level: 1
ADRs Code: FPAFY
CUSIP reference number: 335889200
ADRs to ordinary shares ratio: 1:5
ADRs depositary bank: The Bank of New York Mellon

## To Consolidate Shareholdings

**Write to our principal share registrar and transfer office in Bermuda at:**

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08, Bermuda

**Or the Hong Kong branch registrar at:**

Computershare Hong Kong Investor Services Limited

**Registrar Office**

17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong SAR
Telephone : (852) 2862 8555
Fax : (852) 2865 0990/(852) 2529 6087
E-mail : hkinfo@computershare.com.hk

**Transfer Office**

Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong SAR

## A Chinese Version of this Report, or Additional Information

**Available at:**

www.firstpacific.com

**Or contact:**

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## Auditors

Ernst & Young
18th Floor, Two International Finance Centre
8 Finance Street
Central, Hong Kong SAR

## Solicitors

Reed Smith Richards Butler
20th Floor, Alexandra House
16-20 Chater Road
Central, Hong Kong SAR

## Principal Bankers

Credit Agricole Corporate and Investment Bank
Mizuho Corporate Bank, Ltd.
Standard Chartered Bank
Banco de Oro Unibank, Inc.
Metropolitan Bank & Trust Company

# Summary of Principal Investments

**As at 31 December 2010**

## Philippine Long Distance Telephone Company

**PLDT (PSE: TEL; NYSE: PHI)** is the leading telecommunications service provider in the Philippines. It has shares listed on the Philippine Stock Exchange and ADRs listed on the New York Stock Exchange. It has one of the largest market capitalizations among Philippine listed companies. Through its three principal business groups, PLDT offers a wide range of telecommunications services: Wireless (principally through wholly-owned subsidiary company, Smart Communications, Inc.); Fixed Line (principally through PLDT); and Information and Communications Technology (principally through wholly-owned subsidiary company, ePLDT). PLDT has developed the Philippines' most extensive fiber optic backbone, and fixed line and cellular networks.

| | | |
|---|---|---|
| Sector | : | Telecommunications |
| Place of incorporation/business area | : | The Philippines |
| Outstanding number of shares | : | 186.8 million |
| Particulars of outstanding shares held | : | Common shares of Pesos 5 par value |
| Economic interest | : | 26.5% |

Further information on PLDT can be found at www.pldt.com

## Metro Pacific Investments Corporation

**MPIC (PSE: MPI)** is a Philippine-based, publicly-listed, investment management and holding company focused on infrastructure development.

| | | |
|---|---|---|
| Sector | : | Infrastructure, Utilities and Healthcare |
| Place of incorporation/business area | : | The Philippines |
| Issued number of shares | : | 20.1 billion |
| Particulars of issued shares held | : | Common shares of Peso 1 par value |
| Economic interest | : | 55.6% |

Further information on MPIC can be found at www.mpic.com.ph

## PT Indofood Sukses Makmur Tbk

**Indofood (IDX: INDF)** is a leading Total Food Solutions company with operations in all stages of food manufacturing from the production of raw materials and their processing through to consumer products. It is based in Jakarta and is listed on the Indonesia Stock Exchange; its Consumer Branded Products subsidiary PT Indofood CBP Sukses Makmur Tbk is listed on the Indonesia Stock Exchange; and the two agribusiness subsidiaries, Indofood Agri Resources Ltd and PT PP London Sumatra Indonesia Tbk, are listed in Singapore and Indonesia, respectively. Through its four complementary strategic business groups, Indofood manufactures and distributes a wide range of food products: Consumer Branded Products (noodles, dairy, food seasonings, snack foods and nutrition and special foods), Bogasari (flour and pasta), Agribusiness (oil palm, rubber, sugar cane, cocoa and tea plantations, cooking oils, margarine and shortening) and Distribution.

Indofood is one of the world's largest instant noodle manufacturers by volume, one of the largest plantation companies by area and the largest flour miller in Indonesia. Indofood's flourmill in Jakarta is the largest in the world in terms of production capacity in one location. It also has an extensive distribution network in Indonesia.

| | | |
|---|---|---|
| Sector | : | Consumer Food Products |
| Place of incorporation/business area | : | Indonesia |
| Issued number of shares | : | 8.8 billion |
| Particulars of issued shares held | : | Shares of Rupiah 100 par value |
| Economic interest | : | 50.1% |

Further information on Indofood can be found at www.indofood.com

## Philex Mining Corporation*

**Philex (PSE: PX)** is a Philippine-listed company engaged in exploration, development and utilization of mineral resources in the Philippines.

| | | |
|---|---|---|
| Sector | : | Natural Resources |
| Place of incorporation/business area | : | The Philippines |
| Issued number of shares | : | 4.9 billion |
| Particulars of issued shares held | : | Common shares of Peso 1 par value |
| Economic interest | : | 31.3% |

* Two Rivers Pacific Holdings Corporation, a Philippine affiliate of First Pacific, holds an additional 15.0% interest in Philex.

Further information on Philex can be found at www.philexmining.com.ph

# First Pacific Company Limited


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