LAW OFFICES OF THOMAS K. CROWE, P.C.
1250 24th STREET, N.W.
SUITE 300
WASHINGTON, D.C. 20037

TELEPHONE (202) 263-3640
FAX (202) 263-3641
E-MAIL firm@tkcrowe.com

October 31, 2003

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: Supplemental Filing; IB Docket No. 03-115

Dear Ms. Dortch:

By letter dated October 20, 2003 the Office of the Governor of the Northern Mariana Islands ("Office of the Governor") informed the Commission that it was working to obtain further background information on the principals of Pacific Telecom Inc. ("PTI"), especially information related to their operation of the telecommunications company, Isla Communications, Inc. ("Islacom").[1] The Office of the Governor hereby provides the Commission with the information it has received to date and issues a response to the October 23, 2003 letter of PTI and Bell Atlantic New Zealand Holdings, Inc. ("BANZHI") (collectively, the "Joint Applicants").

A. Further Information

In its October 20, 2003 letter, the Office of the Governor described three specific areas into which further investigation was continuing.

1. Operations of Islacom

The Office of the Governor previously stated that it appeared that Islacom had operated in the Philippines from March 29, 1998 to March 26, 1999 without licensing due to the National Telecommunications Commission's ("NTC") refusal to renew Islacom's licenses for the company's failure to provide service in a manner consistent with conditions of its licenses.[2] Attached as Exhibit A is a Report of Independent Public Accountants, SGV & Co., at Section 17, January 31, 2000 which indicates that Islacom's license expired on November 1, 1998 and, as of

[1] *See* Letter from Thomas K. Crowe and Gregory E. Kunkle, Counsel for the Office of the Governor, to Marlene H. Dortch, Secretary, Federal Communication Commission, dated October 20, 2003 ("October 20, 2003 Letter").

[2] *Id.* at 2.

January 22, 2002[3] had not been renewed by the NTC.[4] The Delgados sold their controlling interest in Islacom to a competitor and exited the market in May 1999 before the NTC ever granted renewal of Islacom's license.[5]

Further information obtained demonstrates why the Delgados sold their interest in Islacom in May 1999. In the period just prior to the Delgado's divestiture of their controlling interest, Islacom was in dire straits. As the Office of the Governor has previously disclosed to the Commission, Islacom had failed to provide local service in accordance with the terms of its license.[6] This resulted in the NTC's refusal to renew Islacom's license. Furthermore, as of December 31, 1998 (the last full calendar year during which the Delgados controlled Islacom), an independent audit of Islacom concluded that "there were certain factors present, including existence of past due liabilities to major suppliers and inability of the Company to settle its bank loans upon maturity, which indicated then that the Company might not be able to continue as a going concern."[7] Viewing these circumstances as a whole, it is clear that the controlling shareholders of Islacom had mismanaged the legal, financial and technical affairs of the company to the point where they were forced to abandon control of Islacom altogether.

2. Administrative Hearings Against Islacom

The Office of the Governor stated that on September 21, 1999, the NTC instituted an administrative hearing against Islacom (one of several instituted against the company) for failure to provide service according to the terms of Islacom's license.[8] Although PTI attacks the Office of the Governor's assertion as "speculative and unsubstantiated", attached to the October 20, 2003 Letter is a copy of a certification from the NTC stating that the investigation is still active.[9] The Office of the Governor also supplied in its September 12, 2003 Letter a copy of a report from the NTC showing that Islacom had failed to provide local service in accordance with the

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3 In its October 20, 2003 Letter, the Office of the Governor stated that its preliminary research indicated that Islacom "appears to have operated in the Philippines from March 29, 1998 to March 26, 1999 without proper licensing due to the NTC's refusal to renew Islacom's license". *See* October 20, 2003 Letter at 2. This period of refusal by the NTC to grant renewal of Islacom's license is actually much longer than previously thought.

4 *See* Report of Independent Public Accountants, SGV & Co., at Section 2, January 22, 2002, attached as Exhibit A.

5 *See* Report of Independent Public Accountants, SGV & Co., at Section 17, January 31, 2000, attached as Exhibit B.

6 *See* Petition to Deny at 16 n. 46. *See also* Letter from Thomas K. Crowe and Gregory E. Kunkle, Counsel for the Office of the Governor, to Marlene H. Dortch, Secretary, Federal Communication Commission, dated September 12, 2003 at 2 ("September 12, 2003 Letter").

7 *See* Report of Independent Public Accountants, SGV & Co., at Section 1, January 31, 2000.

8 *See* October 20, 2003 Letter at 2.

9 *See* October 20, 2003 Letter at Exhibit A. Significantly, PTI and BANZHI neither attempt to refute the existence of the ongoing investigation nor supply any additional information as to the issues under review.

terms of its license.[10] These matters are not "speculative and unsubstantiated". The principals of PTI failed to manage the affairs of their previous telecommunications venture to such a degree that significant penalties were sought by the Philippine Government. This is supported by official Philippine government documents. Undoubtedly, further information is available. The Office of the Governor maintains its assertion that PTI should disclose, on the record, all materials related to any NTC proceeding regarding deficiencies, sanctions, or other enforcement matters pertaining to the operation of Islacom in the Philippines.

3. Ownership of PTI

The Office of the Governor stated that Citadel Holdings, Inc. ("Citadel") may have recently changed its name to "Prospector Investment Holdings Corp."[11] An independent audit conducted by J.B. Santos & Associates confirms that this in fact occurred on January 28, 2002.[12] The striking similarity this company bears in name to Prospector Investments Holdings Inc., the 100% percent shareholder of PTI, raises the issue of whether they are in fact the same company. Throughout this proceeding, PTI has represented that Citadel and Prospector Investment Holdings Inc., are separate entities.[13] Citadel's own independent audit casts that separation, and even the present existence of Citadel Holdings, Inc., in doubt and obscures the true ownership structure of PTI.

Furthermore, the Office of the Governor asserted that Citadel Holdings, Inc. appeared to charge a 10% management fee to certain affiliates for the management of their business operations.[14] The independent audit of J.B. Santos and Associates confirms that this is the case.[15] The Commission should recall that initially PTI had attempted to base its financial qualification on the assets of Citadel and has admitted that PTI is merely a shell company created to hold the assets of MTC.[16] Additionally, Citadel appears to share many of the same officers and directors

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10 *See* September 12, 2003 Letter at Exhibit A.

11 *See* October 20, 2003 Letter at 2.

12 *See* Report of Independent Public Accountants, J.B. Santos & Associates, at Section 13, May 31, 2002, attached as Exhibit C.

13 *See, e.g.,* Petition Of Pacific Telecom Inc. For Declaratory Ruling Under Section 310(b)(4) Of The Communications Act Of 1934, As Amended, IB Docket No. 03-115, at 10 (Apr. 18, 2003) ("Petition for Declaratory Ruling") ("The owners of Citadel Holdings, Inc. established Prospector as an investment vehicle for the purpose of finding and acquiring long-term growth opportunities in the international telecommunications market"). *See also* Joint Opposition to Petitions to Deny and Comments, PTI and BANZHI, June 24, 2003 at 5 ("[C]oncerns regarding the recent financial performance of Citadel have no bearing on PTI's financial ability to under take the transaction contemplated in this proceeding.").

14 *See* October 20, 2003 Letter at 2.

15 *See* Report of Independent Public Accountants, J.B. Santos & Associates, at Section 9, May 31, 2002.

16 *See* Petition for Declaratory Ruling at 3.

with PTI.[17] If the principals of PTI are planning to manage MTC through such a management arrangement with Citadel, not only would this pass inflated, unjustified costs on to U.S. citizen ratepayers in the CNMI,[18] but it would also appear to result in Citadel, a company not before the Commission, acquiring *de facto* control over the operations of MTC. If this is the intended result, it would explain the Joint Applicants' reliance on the assets of Citadel as a demonstration of PTI's financial qualification.[19]

B. The Joint Applicants' October 23, 2003 Letter

The further information supplied above reflects not only the lack of technical and managerial qualification of PTI, but also reinforces the lack of candor that PTI has displayed throughout this proceeding. PTI has, in a number of instances, attempted to conceal information from the Commission, beginning with the intentional misrepresentations and omissions committed in Docket No. 02-111[20], and extending to the questionable way in which it has sought to establish financial qualification (first by relying on the assets of a supposed affiliate [*i.e.*, Citadel], and later to withdraw all financial information and submit *pro forma* balance sheets). Now that additional evidence has been provided demonstrating beyond question that PTI is both technically and managerially unqualified, and troubling questions about the ownership of PTI have surfaced, the Joint Applicants refuse to directly address, and supply information in connection with, these important substantive issues.[21] Instead, the Joint Applicants urge that the Commission expeditiously rule on their Applications without considering the compelling evidence raised by the Office of the Governor.[22]

The Joint Applicants studiously avoid addressing the information the Office of the Governor puts forth in its October 20, 2003 Letter (including the certification of an NTC commissioner that an administrative case remains pending against Islacom). If the Joint Applicants have information which would shed light on these topics, consistent with their duty of

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17 *See* General Information Sheet, Stock Corporation, at 4, June 30, 2003, attached as Exhibit D.

18 This will severely harm the public interest in the CNMI where *per capita* income is less than $7,000 a year. *See* Petition Of The Office Of The Governor Of The Commonwealth Of The Northern Mariana Islands To Deny, Or, In The Alternative, To Designate for Hearing, IB Docket No. 03-115, Exhibit B at 3 (June 9, 2003) ("Petition to Deny").

19 *See* Petition for Declaratory Ruling at 10.

20 *See* Petition to Deny at 4 – 8.

21 The Joint Applicants have resorted to procedural claims that the Office of the Governor's filings are unauthorized. The Joint Applicants themselves have made many unauthorized filing in this proceeding including submissions on July 18, 2003, August 15, 2003, September 24, 2003, and October 23, 2003. The Office of the Governor has chosen not to quarrel over the permissibility of these filings due to its belief that a fully informed ruling is of utmost importance in this proceeding and that such a ruling can only come once the parties have had the ability to disclose all relevant information.

22 *See, e.g.*, October 23, 2003 Letter at 3.

candor, they should release it instead of claiming that a blind rush to judgment is in the public interest.[23] The risk to the public interest, including U.S. citizens in the CNMI and the CNMI economic infrastructure, is simply too great to proceed without fully considering the serious issues that have been raised.[24]

In this proceeding, the Office of the Governor demonstrated in its Petition to Deny that, *inter alia*, PTI is technically and financially unfit to hold the authorizations and that PTI (due to intentional misrepresentations and omissions in related IB Docket No. 02-111) lacks the necessary character requirements to hold the authorizations at issue.[25] The failed operation of Islacom in the Philippines underscores this and highlights the lack of competence of the principals of PTI to operate a telecommunications provider, let alone a monopoly provider such as MTC whose operations are more diverse and complex than were those of Islacom. Consider the history of the principals of PTI that has been established in this proceeding. At the close of the final year of their ownership of Islacom, the Delgados' company had 1) lost its operating authority from the NTC; 2) failed to provide service as required by its license to such a degree that an administrative hearing would shortly be instituted by the Philippine government to determine a proper sanction[26]; and 3) incurred such debts as to cause the ability of the company to continue to be questioned by independent auditors. Under no rationale can the public interest be served by allowing these same principals to control monopoly facilities in a U.S. insular community.

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23 Joint Applicants assert in their October 23, 2003 Letter that the Commission's internal clock expires on November 6, 2003 and that this filing leaves them no time to respond to the issues raised by the Office of the Governor. See October 23, 2003 Letter at 1 n. 2. The Joint Applicants calculation of the expiration of the Commission's internal clock is incorrect as the clock expires on November 4, 2003. In any event, the Joint Applicants were put on notice of the issues that would be addressed in this filing in the Office of the Governor's October 20, 2003 Letter and had sufficient time to respond if they had relevant information.

24 The Joint Applicants state that the Executive Branch agencies have affirmed that national security and public safety will be protected upon a grant of the Applications. *See* October 23, 2003 Letter at 2. While deference to those agencies may be appropriate on national security grounds, the Commission must independently ensure that the public interest is protected. The Office of the Governor has demonstrated the significant terrorist risk that the CNMI faces due to its strategic location. Indeed, according to a recent article in Time Asia Magazine, Philippine President Gloria Arroyo recently acknowledged for the first time that "her country might be a haven for at least 45 -- some say hundreds -- of [Jemaah Islamiah] militants, as well as suspected al-Qaeda operatives." *See* Simon Elegant, *Elevated Threat*, Time Asia, November 3, 2003, *available at* http://www.time.com/time/asia/magazine/printout/0,13675,501031103-526545,00.html. *See also* Simon Elegant, *The Philippines' Iraq Connection*, Time, February 17, 2003, *available at* http://www.time.com/time/search/article/0,8599,423566,00.html. This increased threat combined with the CNMI's insular location requires that the Commission carefully ensure that any purchaser of the CNMI monopoly telephone system be technically, legally and managerially qualified to operate that system. Otherwise, the security of U.S. citizens in the CNMI as well as the CNMI economic infrastructure will be placed at risk.

25 *See* Petition to Deny at 4 – 8.

26 This case remains open and continues to this day.

Notwithstanding this, the Joint Applicants talk about their grand promises and intentions for the CNMI market.[27] While these goals sound appealing, they are speculation (and indeed misleading if they cannot be delivered). The principals of PTI, as owners of Islacom, failed to live up to similar promises made to the people of the Philippines. Furthermore, the Joint Applicants have already made intentional misrepresentations in IB Docket No. 02-111 regarding the qualifications of PTI. Thus, the Commission -- and the Office of the Governor -- has absolutely no basis for reliance on the empty promises made by PTI in the instant proceeding.

Accordingly, on the basis of all of the evidence supplied in this proceeding, the pending applications to transfer control of MTC to PTI should be denied or, alternatively, designated for hearing.

Respectfully submitted,

Thomas K. Crowe
Gregory E. Kunkle,
Counsel for the Office of the Governor
of the Commonwealth of the Northern Mariana Islands

Exhibits

cc: Parties of Record

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27 *See* October 23, 2003 Letter at 3 ("The employees and business partners of MTC look forward to the transition to new ownership and an end to the unnecessary uncertainty regarding the pending transaction. The residents of the CNMI also will benefit"). Conclusory remarks from the Joint Applicants about any benefit that the people of the CNMI stand to gain from approval of the pending Applications are immaterial and inaccurate. Facts put into the record in this proceeding by the Office of the Governor clearly demonstrate that a grant of the Applications would not be in the public interest and would instead jeopardize the quality of telecommunications in the CNMI and the safety of the people in the Commonwealth. The principals of PTI were clearly not managerially and technically qualified to operate a telecommunications provider in the Philippines, and are not qualified now to operate one in the CNMI.

EXHIBIT A

SEC Number 178235

File Number

ISLA COMMUNICATIONS COMPANY, INC.

(A WHOLLY OWNED SUBSIDIARY OF GLOBE TELECOM, INC.)

(Company's Full Name)

18F Globe-Isla Plaza
Corner Samar and Panay Road
Cebu Business Park, Cebu City

(Company's Address)

(Telephone Number)

December 31, 2001

(Calendar Year Ended)

Audited Financial Statements

Form Type

Amendment Designation (if applicable)

Period Ended Date

(Secondary License Type and File Number)

ISLA COMMUNICATIONS CO., INC.

A wholly-owned subsidiary of Globe Telecom

January 22, 2002

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Isla Communications Company, Inc. (the Company) is responsible for all information and representation contained in the financial statements as of December 31, 2001 and 2000 and for each of the two years ended December 31, 2001 and 2000. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgement of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use of disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to stockholders of the Company.

Sycip, Gorres, Velayo & Co, the independent auditors appointed by the stockholders have examined the financial statements of the Company in accordance with auditing standards generally accepted in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such audit in the attached report to the stockholders.

Gil B. Genio
Chief Operating Officer

Edith C. Santiago

Edith C. Santiago
Vice President – Financial Control

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co

6760 Ayala Avenue
1226 Makati City
Philippines

Tel 632 891 0307
Fax 632 819 0872

www.sgv.com.ph

The Stockholders and the Board of Directors
Isla Communications Company, Inc.
18F Globe-Isla Plaza
Corner Samar and Panay Road
Cebu Business Park, Cebu City

We have audited the accompanying balance sheets of Isla Communications Company, Inc. (a wholly owned subsidiary of Globe Telecom, Inc.) as of December 31, 2001 and 2000, and the related statements of income, changes in stockholders' equity (capital deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Isla Communications Company, Inc. as of December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

As discussed in Note 17, effective June 30, 2001, the Company changed its method of accounting for rebates from suppliers. Previously, these rebates were recorded as a reduction of the original acquisition cost of the related property and equipment previously acquired by the Company. The adoption of the new method is to align the Company's accounting policy with the US GAAP preferred treatment of recognizing these rebates as extraordinary income items. The cumulative effect of change in accounting for rebates amounting to ₱2,646,136,313 to retroactively apply the new method is included in income for the year ended December 31, 2001.

SyCip Gorres Velayo & Co

A. F. DE JESUS
Partner
CPA Certificate No. 43285
PTR No. 6723208
January 2, 2002
Makati City

January 22, 2002

2001020-1326

ISLA COMMUNICATIONS COMPANY, INC.
(A Wholly Owned Subsidiary of Globe Telecom, Inc.)
BALANCE SHEETS

	December 31	
	2001	2000
	(In Thousand Pesos)	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 21 and 24)	**₱1,805,191**	₱420,444
Receivables - net (Notes 4, 12 and 21)	**1,068,310**	1,150,966
Inventories and supplies - net (Note 5)	**185,737**	168,408
Prepayments and other current assets (Notes 6 and 12)	**1,397,356**	667,052
Total Current Assets	**4,456,594**	2,406,870
Property and Equipment - net (Notes 7, 11, 12, 17, 19 and 21)	**18,707,317**	17,235,757
Other Assets - net (Notes 7, 8 and 19)	**550,319**	640,167
	₱23,714,230	₱20,282,794
LIABILITIES AND STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)		
Current Liabilities		
Notes payable (Notes 9 and 21)	**₱–**	₱3,146,595
Accounts payable and accrued expenses (Notes 7, 9, 10, 12, 14, 17, 19, 20 and 21)	**3,339,575**	3,432,398
Due to foreign suppliers and affiliates (Notes 7, 11, 12, 17 and 21)	**1,259,155**	2,615,105
Total Current Liabilities	**4,598,730**	9,194,098
Deferred Income Tax (Note 16)	**–**	436,278
Due to Foreign Suppliers - net of current portion (Notes 7, 11, 17 and 21)	**10,500**	42,308
Due to Affiliates (Notes 12 and 21)	**775,350**	14,825,732
Stockholders' Equity (Capital Deficiency) (Note 13)	**18,329,650**	(4,215,622)
	₱23,714,230	₱20,282,794

See accompanying Notes to Financial Statements.

ISLA COMMUNICATIONS COMPANY, INC.
(A Wholly Owned Subsidiary of Globe Telecom, Inc.)
STATEMENTS OF INCOME

	Years Ended December 31	
	2001	2000
	(In Thousand Pesos)	
NET OPERATING REVENUES (Notes 12 and 19)	₱2,639,411	₱1,911,642
COST AND EXPENSES		
Operating (Notes 7, 12, 14, 15, 19 and 20)	2,552,718	2,906,493
Depreciation and amortization	2,084,929	2,284,020
Provision for inventory losses, obsolescence, market decline and other probable losses	72,008	16,172
Provision for doubtful accounts	32,917	741,305
	4,742,572	5,947,990
LOSS FROM OPERATIONS	2,103,161	4,036,348
OTHER CHARGES (INCOME) - Net		
Interest expense (Note 9)	241,988	624,866
Interest income	(85,989)	(15,961)
Others (Notes 7, 21 and 23)	92,887	1,330,330
	248,886	1,939,235
LOSS BEFORE PROVISION FOR (BENEFIT FROM) INCOME TAX AND BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING POLICY	2,352,047	5,975,583
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)	(436,278)	386,917
NET LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING POLICY	1,915,769	6,362,500
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING POLICY (Note 17)	2,646,136	–
NET INCOME (LOSS)	₱730,367	(₱6,362,500)
Earnings (Loss) Per Share (Note 18)	₱0.41	(₱3.53)

See accompanying Notes to Financial Statements.

ISLA COMMUNICATIONS COMPANY, INC.
(A Wholly Owned Subsidiary of Globe Telecom, Inc.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)

	Years Ended December 31	
	2001	2000
	(In Thousand Pesos)	
Capital Stock (Note 13)	**₱1,728,000**	₱1,728,000
Additional Paid-in Capital		
Balance at beginning of year	**7,522,411**	6,286,796
Conversion of debt to equity (Notes 2 and 12)	**11,588,618**	1,235,615
Increase in additional paid-in capital (Notes 2 and 13)	**10,226,287**	–
Elimination of deficit as of February 28, 2001 against additional paid-in capital through quasi-reorganization (Note 13)	**(13,270,224)**	–
Balance at end of year	**16,067,092**	7,522,411
Deposit on Future Stock Subscription	**3,552**	3,552
Retained Earnings (Deficit)		
Balance at beginning of year	**(13,469,585)**	(7,107,085)
Net income (loss) for the year	**730,367**	(6,362,500)
Elimination of deficit as of February 28, 2001 against additional paid-in capital through quasi-reorganization (Note 13)	**13,270,224**	–
Balance at end of year	**531,006**	(13,469,585)
	₱18,329,650	(₱4,215,622)

See accompanying Notes to Financial Statements.

ISLA COMMUNICATIONS COMPANY, INC.
(A Wholly Owned Subsidiary of Globe Telecom, Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2001	2000
	(In Thousand Pesos)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	₱730,367	(₱6,362,500)
Adjustments for:		
Cumulative effect of change in accounting policy	(2,646,136)	–
Depreciation and amortization of property and equipment	2,009,453	2,199,676
Amortization and write-off of preoperating expenses and deferred charges	75,476	130,472
Losses in property and equipment	41	275,507
Net unrealized foreign exchange losses	195,420	1,054,113
Interest expense	241,988	624,866
Income taxes	(436,278)	386,917
Provisions for:		
Inventory losses, obsolescence, market decline and other probable losses	72,008	145,293
Doubtful accounts	32,917	741,305
Changes in operating assets and liabilities:		
Receivables	42,818	(345,833)
Inventories and supplies	43,319	(39,557)
Prepayments and other current assets	(660,261)	(210,077)
Accounts payable and accrued expenses	137,960	(1,595,435)
Cash used in operations	(160,908)	(2,995,253)
Interest paid	(610,018)	(268,188)
Net cash used in operating activities	(770,926)	(3,263,441)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net disposals (additions) to property and equipment	(1,193,024)	136,449
Proceeds from sale of property and equipment	943	580,000
Decrease (increase) in other assets	14,372	(109,439)
Net cash from (used in) investing activities	(1,177,709)	607,010
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of:		
Foreign suppliers	(2,905,831)	(890,513)
Notes payable	(5,899,483)	–
Proceeds from:		
Notes payable	2,625,927	–
Foreign suppliers	947,377	–
Increase (decrease) in due to affiliates	(1,660,895)	3,245,299
Increase in additional paid-in capital	10,226,287	618,383
Net cash from financing activities	3,333,382	2,973,169
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,384,747	316,738
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	420,444	103,706
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱1,805,191	₱420,444

See accompanying Notes to Financial Statements.

ISLA COMMUNICATIONS COMPANY, INC.
(A Wholly Owned Subsidiary of Globe Telecom, Inc.)
NOTES TO FINANCIAL STATEMENTS

1. General

Isla Communications Company, Inc. (Islacom) is a stock corporation organized under the laws of the Philippines. The Company is one of the providers of digital wireless communication services in the Philippines using a fully digital network based on GSM technology. It also offers a broad range of wireline voice communication as well as domestic and international long distance communication services or carrier services. The Company's principal executive office is located at 18F Globe-Isla Plaza, corner Samar and Panay Road, Cebu Business Park, Cebu City, Philippines (formerly at 4F CIFC Bldg. corner J. Luna and Humabon Streets, North Reclamation Area, Cebu City, Philippines). In June 2001, the Company became a wholly owned subsidiary of Globe Telecom, Inc. (Globe Telecom) (see Note 2).

The Company is enfranchised under Republic Act (RA) No. 7372 and its related laws to render any and all types of domestic and international telecommunications services. The Company is entitled to certain tax and non-tax incentives both under its franchise and its non-pioneer status registrations obtained from the Board of Investments under Executive Order No. 226 as a new operator of Cellular Mobile Telephone System (CMTS) and International Digital Gateway Facility (IGF) in Cebu. The Company has availed of such incentives principally for tax and duty-free importation of capital equipment for its services under its franchise. The tax exemption benefits previously availed of were by virtue of the Company's legislative franchise and rulings of the Department of Finance.

On September 28, 1998, the Company filed a motion for extension of its Provisional Authority (PA) for its IGF which expired on November 1, 1998. This application for extension is still pending approval by the National Telecommunications Commission (NTC).

On June 5, 2001, Islacom's registration with the NTC to render paging services expired. On the same date, Islacom discontinued the service.

On August 27, 2001, NTC gave the Company its authority to operate "Budget Service", otherwise known as its Local Exchange Carrier (LEC) Prepaid Service.

On November 19, 2001, NTC approved the Company's application for the rebalancing of its LEC rates. On the same day, NTC also approved the extension of the Company's LEC and CMTS PA up to July 10, 2004 and March 29, 2004, respectively.

2. Combination with Globe Telecom

Islacom and its principal shareholders Asiacom Philippines, Inc. (Asiacom) and DeTeAsia Holding GmbH (DTA), a wholly owned subsidiary of Deutsche Telekom AG (DT) and Globe Telecom and its principal shareholders Ayala Corporation (AC) and Singapore Telecom International Pte. Ltd. (STI), a wholly owned subsidiary of Singapore Telecom, entered into a General Agreement on February 22, 2000, for a combination of the business and operations of Globe Telecom and Islacom. The General Agreement contemplated the issuance of new Globe Telecom common and preferred shares to Islacom's shareholders in exchange for 100% of the issued and outstanding stock of Islacom. The following were undertaken and completed pursuant to the General Agreement and the share swap transaction:

- Globe Telecom restructured its existing capital structure through the execution of a 1 for 50 reverse stock split and a declassification of Globe Telecom's Common A and B shares into a single class of shares in August 2000.

- In the last quarter of 2000, Islacom aligned certain operating and financial policies with Globe Telecom which resulted in significant one-time adjustments amounting to about ₱1.02 billion included in the related accounts in Islacom's statements of income. These one-time adjustments include the effects of change in estimated useful lives of outside plant and others and the effects of the elimination of salvage values in computing for depreciation and amortization expenses which resulted in an increase in Islacom's loss from operations of about ₱847 million in 2000.

- NTC issued its approval on the share swap transaction on February 2, 2001.

- On June 27, 2001, the Philippine Stock Exchange (PSE) approved the listing of Globe Telecom's 28,830,860 new common shares and 158,515,021 preferred series "A" shares issued to Islacom's principal shareholders DTA and Asiacom, respectively, in exchange for 100% of the issued and outstanding stock of Islacom. On the same day, the parties completed the share swap transactions and the new shares were listed on the PSE on June 29, 2001.

- As part of the commitments, representations and warranties made by the shareholders of Globe Telecom and Islacom under the General Agreement: (a) Islacom Board of Directors (BOD) approved on January 19, 2001 the conversion of the US$240 million loan from DTA into additional paid-in capital. On February 28, 2001, the US$240 million loan from DTA was converted into DTA's equity in Islacom following the approval of the NTC of the share swap transaction; and (b) DTA reimbursed Islacom for all expenses relating to the dispute with Liberty Broadcasting Network Inc. (LBNI) over a microwave backbone transmission facility. These expenses aggregated to about ₱641 million and were also converted to additional paid-in capital (see Note 7). Further, the parties also agreed that Islacom's liability to LBNI in the amount of US$14.4 million, which was paid by DTA, be converted to additional paid-in capital.

- On February 5, 2001, the shareholders of Islacom signed a Settlement Agreement by virtue of which they agreed to mutually settle, and waive and compromise any and all representation and warranty claims under the General Agreement, which was signed on February 22, 2000.

- Islacom has received US$68 million (₱3.4 billion) additional paid-in capital from Asiacom as of February 6, 2001. Asiacom provided additional funding to Islacom for the enhancement of the value of the combination of Islacom and Globe Telecom.

- On March 5, 2001, AC, STI, DT and Asiacom signed an agreement under which, subject to the approval of Philippine Securities and Exchange Commission (SEC) and PSE, DT and Asiacom will subscribe to 28,830,860 new common and 158,515,021 series "A" convertible preferred shares, respectively, of Globe Telecom in exchange for 100% of the issued and outstanding capital stock of Islacom.

- On March 9, 2001, Globe Telecom filed its application with the Philippine SEC to increase its authorized capital stock from ₱5 billion to ₱11.25 billion to create additional common and preferred shares and to issue them to DTA and Asiacom as an exempt transaction under the Revised Securities Act in order to effect the share swap agreement (see Note 14). This application was approved by the Philippine SEC on June 2, 2001.

3. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation
The financial statements have been prepared under the historical cost convention method and in accordance with accounting principles generally accepted in the Philippines.

Adoption of New Accounting Standards
The Company adopted SFAS 1 (revised 2000), Presentation of Financial Statements, SFAS 4 (revised 2000), Inventories, SFAS 13 (revised 2000), Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, SFAS 22 (revised 2000), Cash Flow Statements, and SFAS 31, Segment Reporting, effective January 1, 2001.

Revenue Recognition
Net operating revenues include the value of all telecommunications services provided and are recognized when earned and stated net of the share of other foreign and local carriers, if any, under existing correspondence and interconnection agreements. Interconnection fees and charges are estimated based on agreed rates with the other foreign and local carriers and any unpaid amounts are shown as "Traffic Settlement Payables" in the balance sheets. Inbound revenues, included as part of net operating revenues, represent settlement received from telecommunications providers who sent traffic to the Company's network and any uncollected revenue is shown as "Traffic Settlement Receivables" in the balance sheets. Inbound revenues are estimated based on agreed inpayment accounting rates with other carriers.

Both the interconnection fees and charges and inbound revenues are accrued based on actual volume of traffic monitored by the Company from the switch. Adjustments are made on the accrued amounts for discrepancies between the amount accrued by the Company and the amount reported by the other carriers. These adjustments are recognized as they are determined and are mutually agreed to by the parties.

One-time registration fees received from certain mobile subscribers are included under "Net Operating Revenues". The related costs incurred in connection with the acquisition of subscribers, which exceed the one-time registration fees, are charged to operations. Subscriber acquisition costs, which primarily include commissions and handset subsidy, are charged to operations in the year in which they are incurred. Handset subsidy represents the difference between the book value of the handset and the selling price to a subscriber.

Installation fees received from landline subscribers are also credited to "Net Operating Revenues". The related labor cost on installation, which exceed the installation fees, are also charged to operations.

The Company initially recognizes the proceeds from sale of prepaid cards as deferred revenues and shown under "Accounts payable and accrued expenses" account in the liabilities section of the balance sheets. Revenue is realized upon actual usage of the airtime value of the card or expiration of the unused value of the card, whichever comes earlier, excluding the airtime value of free call cards given to dealers as promotional items. Interconnection fees and charges arising from the actual usage of free call cards are recorded as incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term cash investments with original maturities of three months or less from date of acquisition.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is made by the Company on a continuous basis.

Customers

Full allowance is provided for receivables from permanently disconnected subscribers. Permanent disconnections are made after a series of collection steps following non-payment of mobile and landline subscribers. As an overriding policy, the Company provides full allowance for residential and wireline business subscribers with outstanding receivables that are past due by 90 days and 150 days respectively. Additional provisions are made for accounts specifically identified to be doubtful of collection.

Traffic Settlement Receivables - net

A policy of providing full allowance is adopted for net international and national traffic settlement accounts which are not settled within 10 months from transaction date and after a review of the status of settlement with other carriers. Additional provisions are made for accounts specifically identified by the Company to be doubtful of collection.

Inventories and Supplies

Mobile handsets and accessories are stated at the lower of cost or net realizable value. Cost is determined by the moving-average method. Subscriber installation materials (SIM) and spare parts and others, included in Inventories and Supplies account, are stated at cost net of allowance for losses.

Allowance is provided for obsolescence and possible losses. Full obsolescence allowance is provided on mobile inventories when the inventory is non-moving for more than one year. An allowance for market decline is also provided equivalent to the difference between the cost and the net realizable value of inventories. When inventories are sold, the related allowance is reversed in the same period.

In 2001, the Company adopted the policy of providing full allowance for SIM that are non-moving for more than one year. A 50% provision is provided for SIM that are slow moving.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and allowance for losses. Cost includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation, and (b) foreign exchange differentials (foreign exchange loss net of foreign exchange gain) arising from restatement to prevailing exchange rate of foreign currency-denominated liabilities related to the acquisition of property and equipment. Foreign exchange losses are no longer included as part of cost if the resulting carrying amount of the related fixed assets exceeds the lower of the replacement cost and the amount recoverable from the use or sale of the asset.

Projects under construction are transferred to the related property account when the construction or installation and related activities necessary to prepare the property for its intended use are complete and the property is ready for service.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The foreign currency exchange differential capitalized as part of the cost of the property is depreciated over the remaining estimated useful life of the related property. Leasehold improvements are amortized over their useful lives or the period of the lease agreements, whichever is shorter. The average estimated useful lives of the property and equipment are as follows (in years):

Telecommunications equipment:	
Tower and mast	15
Switch	10-15
Outside plant	20*
Others	5-20*
Buildings	20
Leasehold improvements	5
Furniture, fixtures and equipment	5
Transportation equipment	5
Work equipment	3

* effective March 1, 2000 (see Note 2)

The cost of distribution dropwires is included under telecommunications equipment and is depreciated over five years.

Maintenance and repairs are charged to operations. Major renewals and improvements, which extend the lives of the equipment, are capitalized to the appropriate property and equipment accounts. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

The Company provides an allowance for probable losses on property and equipment resulting from its conduct of periodic physical count. An allowance for obsolescence is also provided based on the observed condition of the assets during the count.

Income Tax
Deferred tax assets and liabilities are recognized for: (a) the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases; and (b) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and NOLCO is expected to be realized. A valuation allowance is provided when it is more likely than not that the tax benefits of temporary difference giving rise to deferred income tax assets will not be realized through income tax deductions in the near future.

Preoperating Expenses and Deferred Charges
Expenses incurred prior to the start of full commercial operations which have been capitalized (net of preoperating revenues) are amortized over a period of ten years from the start of regular commercial operations.

Pension Costs
The Company's pension expense is determined using the projected unit credit actuarial cost method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuation of the Company's pension plan is done annually. Unrecognized past service costs are amortized over the expected average future service years of the current plan members.

Borrowing Costs
Interest and other related financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation are capitalized as part of the cost of the property. The capitalization of these borrowing costs as part of the cost of the property (a) commences when the expenditures and borrowing costs are being incurred during the installation and related activities necessary to prepare the property for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the property for its intended use are complete. These costs are amortized using the straight-line method over the estimated useful lives of the related property.

Other borrowing costs are recognized as expense in the year in which they are incurred.

Foreign Currency Transactions
Transactions denominated in foreign currencies are recorded in Philippine Peso based on the exchange rate prevailing at the date of the transactions. Foreign currency denominated monetary assets and liabilities are stated at the exchange rate prevailing at balance sheet dates. Exchange gains or losses arising from the subsequent settlement or restatement of receivables and liabilities at exchange rates different from those at which the receivables or liabilities are recorded are credited or charged to current operations, except for those pertaining to foreign currency denominated liabilities related to the acquisition of property and equipment, which are added to or deducted from the carrying amount of the related property and equipment account.

Exposure Draft No. 37 (ED 37) (as revised) of the Accounting Standards Council (ASC), "The Effects of Changes in Foreign Exchange Rates", proposes certain restrictions in allowing the deferral or capitalization of foreign exchange differentials. Under the proposed standards, ED 37 will be effective on January 1, 2005.

Earnings (Loss) Per Share
Earnings (loss) per share is computed based on the weighted average number of shares outstanding during the period.

4. Receivables

This account consists of receivables from:

	2001	2000
	(In Thousand Pesos)	
Customers	**₱2,506,843**	₱2,418,462
Traffic settlements (see Notes 12 and 21)	**723,922**	830,302
Others	**77,041**	108,781
	3,307,806	3,357,545
Less allowance for doubtful accounts	**2,239,496**	2,206,579
	₱1,068,310	₱1,150,966

The Company's allowance for doubtful accounts as of December 31, 2001 and 2000 consists of ₱2,214.88 million and ₱2,179.68 million for customers' accounts and ₱24.62 million and ₱26.90 million for traffic settlements and others, respectively.

5. Inventories and Supplies

This account consists of:

	2001	2000
	(In Thousand Pesos)	
Handsets and accessories	**₱130,167**	₱42,184
Subscriber installation materials	**70,257**	135,247
Spare parts and supplies	**15,148**	13,530
	215,572	190,961
Less allowance for inventory losses, obsolescence and market decline	**29,835**	22,553
	₱185,737	₱168,408

6. Prepayments and Other Current Assets

This account consists of:

	2001	2000
	(In Thousand Pesos)	
Input value added tax	**₱823,178**	₱419,779
Others (Note 12)	**612,257**	368,477
	1,435,435	788,256
Less allowance for losses	**38,079**	121,204
	₱1,397,356	₱667,052

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Other prepayments and other current assets include deferred charges on minimum corporate income tax (MCIT) amounting to ₱42.59 million in 2001 and can be claimed as tax credit against regular income tax until 2004. MCIT is computed at the rate of 2% of gross income.

The allowance for losses balance relates mainly to input value added tax amounting to ₱105.66 million which was reversed in April 2001 as a result of the recovery of the 1998 VAT refund applied amounting to ₱92.58 million that was received on March 8, 2001.

7. Property and Equipment

This account consists of:

	2001	2000
	(In Thousand Pesos)	
Telecommunications equipment and facilities	**₱23,987,069**	₱20,705,194
Furniture, fixtures and equipment	**515,915**	271,840
Building and leasehold improvements	**356,399**	313,116
Land	**123,197**	123,197
Transportation and work equipment	**104,721**	85,064
	25,087,301	21,498,411
Less accumulated depreciation and amortization and allowance for losses	**7,830,243**	5,369,987
	17,257,058	16,128,424
Projects under construction	**1,450,259**	1,107,333
	₱18,707,317	₱17,235,757

In 2000 and in 1999, the Company and its major suppliers entered into agreements which resulted to the following:

a. Extension by the suppliers of rebates on the cost of property and equipment and services previously purchased by the Company. The rebates were substantially adjusted against the cost of the related property and equipment.

b. Waiver by the suppliers of interest accruing on the past due accounts. Accrued interest waived by the suppliers was recorded as a reduction of the interest expense or adjusted against the cost of related property and equipment for previously capitalized interest.

c. Restructuring of the remaining liabilities after the effect of the rebates, waiver of interest and payments made by the Company.

Under the agreements, the outstanding liabilities are payable over a period of two years up to September 2002.

As discussed in Note 17, effective June 2001, the Company accounted for rebates as extraordinary income. The change was adopted to align the Philippine GAAP treatment for rebates with the US GAAP preferred treatment.

On April 2, 1998, Islacom entered into a Memorandum of Agreement (MOA) with LBNI, for the purchase of the microwave backbone transmission network of LBNI at a contract price of US$18.4 million. A downpayment was made equivalent to 20% of the contract price thereby leaving a balance of US$14.4 million due to LBNI. In 1999, Islacom and LBNI became involved in a dispute, in which both Islacom and LBNI raised alleged violations by the other party of the terms of the agreements entered into. Islacom had not used the microwave backbone transmission equipment and had no plans to put the equipment into service. In 1999, Islacom charged to operations the book value of the equipment.

On December 15, 2000, Islacom entered into a Compromise Agreement with LBNI to settle the dispute (see Note 2). The agreement stipulated among others, the obligations of Islacom to:

- Return to LBNI the equipment and frequencies,
- Reimburse costs incurred by LBNI for the operation and maintenance of the equipment amounting to ₱268 million,
- Pay actual damages of US$7 million representing sunk costs and losses incurred by LBNI by reason of the rescission of the MOA.

As stated in Note 2, DTA reimbursed Islacom for all expenses relating to the dispute with LBNI. These amounted to about ₱641 million and were converted to additional paid-in capital of Islacom.

On October 4, 2000, the Company sold certain condominium units, including parking slots, at the Abacus Financial Center to PCI Leasing and Finance, Inc. (PCILF) for a total consideration of ₱580 million. The sale resulted in a gain of about ₱7.5 million. On the same day, the Company entered into a Lease Agreement ("Agreement") with PCILF covering the same property for a period starting from October 5, 2000 to August 29, 2005. The Agreement stipulates, among others, for the payment by the Company to PCILF amounting to ₱116 million as guaranty deposit prior to the start of the lease (see Note 8). Lease payments in 2001 amount to ₱9.0 million per month for the first quarter, ₱8.2 million for the second quarter, ₱8.1 million for the third quarter and ₱8.3 million for the fourth quarter. Lease payments are reviewed and adjusted quarterly.

The Agreement also stipulates that the lease is irrevocable for the full term thereof and the Company's obligation to pay the aggregate rent for the full term is unconditional and shall not abate by reason of loss or damage to the leased property. The Company agrees to pay PCILF the stipulated loss value of the leased property computed as of the rent payment date. The Company has no option to purchase or otherwise acquire title to or ownership of the leased property during the entire lease term and shall have only the right to use the property.

On December 10, 2001, the Abacus Financial Center was renamed to Globe-Isla Plaza.

8. Other Assets

This account consists of:

	2001	2000
	(In Thousand Pesos)	
Preoperating expenses and deferred charges - net	**₱396,400**	₱471,876
Rental deposits and others (see Notes 7 and 19)	**153,919**	168,291
	₱550,319	₱640,167

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9. Notes Payable

This account consists of foreign currency denominated loans obtained from the following banks:

	2001	2000
	(In Thousand Pesos)	
Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzontrale	₱–	₱2,649,470
Citibank, NA	–	497,125
	₱–	₱3,146,595

Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzontrale
The loans from Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzontrale (the Banks) represent the proceeds from the short-term credit facility totalling US$80.0 million. Under the terms and conditions of the agreement, the loans are secured by a corporate guarantee from Deutsche Telekom AG (DT). The loan was repaid on May 16, 2001.

Citibank, NA
The loan from Citibank was paid on November 16, 2001.

The principal amount of the notes payable bears interest at prevailing market rates on December 31, 2000, as follows:

Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzontrale	7.2%
Citibank, NA	9.1%

Interests on the loans are paid as these become due. Accrued interest payable on the above loans amounted to ₱5.7 million as of December 31, 2000 and is shown as part of the "Accounts Payable and Accrued Expenses" account in the balance sheets (see Note 10).

10. Accounts Payable and Accrued Expenses

This account consists of:

	2001	2000
	(In Thousand Pesos)	
Accounts payable (see Notes 12 and 23)	**₱1,070,377**	₱993,984
Accrued expenses (see Notes 9,14 and 20)	**1,189,859**	1,243,402
Traffic settlements (see Notes 12 and 21)	**857,540**	1,119,797
Accrued project costs (see Note 19c)	**169,376**	43,399
Deferred revenues	**52,423**	31,816
	₱3,339,575	₱3,432,398

11. Due to Foreign Suppliers

This account consists of amounts due to foreign suppliers for billed goods and services (see Note 21):

	2001	2000
	(In Thousand Pesos)	
Siemens Aktiengesellschaft (Siemens AG)	**₱363,223**	₱1,613,716
Alcatel SEL Aktiengesellschaft (Alcatel)	**42,191**	205,295
Q-Telecell GmbH	**19,638**	24,235
Strategic Solutions	**14,621**	14,140
Digital Microwave Corporation	**10,500**	10,154
Lucent Technologies, Inc. (Lucent)	**1,085**	788,440
Others	**2,296**	1,433
	453,554	2,657,413
Less current portion	**443,054**	2,615,105
	₱10,500	₱42,308

The Company, in compliance with the requirements of its PAs as a CMTS and IGF operator, entered into contracts with foreign suppliers subject to certain terms and conditions as mutually agreed upon by the parties:

a. On February 23, 1996, as amended, with Lucent for the installation of about 350,000 fixed line telephone connections. The first and second phases of this contract comprise about 120,000 lines for a contract amount of US$176.0 million, as revised.

b. On July 13 and 18, 1996, with Siemens AG and Siemens, Inc. for the installation of about 350,000 fixed line telephone connections and outside plant network, respectively. The first and second phases of these contracts comprise about 208,000 lines for a contract amount of US$232.0 million, as revised.

c. On May 9, 1997, with Alcatel for the supply and installation of 72 base transceiver stations and 8 base station controllers relating to Stage 3 of the global system for mobile communications (GSM) project for a contract amount of US$39.0 million, as revised.

d. On June 2, 1997, as amended, with Krone for the supply and installation of 32,550 wireless local loop lines with 42 units base station telecell for a contract amount of US$29.0 million, as revised.

e. On November 28, 1997, with Siemens for the supply of equipment and related services covering the GSM Network Expansion Program, covering, but not limited to: base station subsystem, mobile service switching center, visitor location register, home location register and operation systems.

f. On December 12, 2000, with Q-Telecell Philippines, Inc. for the supply of services and Q-Telecell GmbH for the supply of equipment to obtain telephone coverage in 85 municipalities for a contract amount of ₱120 million and US$7.6 million, respectively (see Note 19c).

g. In 2000, the Company obtained the services of Ericsson Radio Systems AB for the supply of a mobile telephone system for a contract amount of US$1.1 million (see Note 19c). On September 10, 2001, both parties signed the supply contract covering the services obtained in 2000.

h. On September 7, 2001, with Ericsson Telecommunications, Inc. to perform the identification and negotiations for the purchase or lease of new sites, the preparation of the sites and the installation, testing and commissioning of the mobile telephone system composed of hardware and related software for the project for a contract amount of US$3.6 million.

The amounts due to these foreign suppliers, as mentioned in letters a to e, bear interest based on LIBOR US dollar rate plus a margin ranging from 1% - 3% per annum.

12. Related Party Transactions

The Company, in the regular conduct of business, enters into transactions with its principal shareholders and certain affiliates involving the following:

Transactions with Globe Telecom
In 2001, the Company entered into an Omnibus Intercompany Services Agreement (Agreement) with Globe Telecom that covers the significant intercompany arrangements between the Company and Globe Telecom including the following:

(a) Facilities outsourcing services arrangement whereby both parties mutually agree to provide, install and maintain or make available necessary network resources and facilities to each other to benefit both networks' subscribers. For the facilities outsourcing services rendered by each party to the other, the parties agreed to pay each other capacity provisioning and utilization fees. For the year ended December 31, 2001, the aggregate capacity provisioning fee credited to operations amounted to ₱1,004.82 million while the aggregate capacity utilization fee charged to operations for the year ended December 31, 2001 amounted to ₱31.71 million.

(b) Management support services agreement under which Globe Telecom renders general management and support services for a fee. Management fees charged by Globe Telecom amounted to ₱134.61 million in 2001.

The Agreement also provided for (a) a co-location agreement where both parties give each other access and co-location to cell sites and other facilities subject to co-location fees that largely shared on an equal basis, (b) a licensing agreement allowing the limited use of each other's brands, trademarks, proprietary products and processes, and other intellectual properties and (c) dealership under which each party appoints the other as its dealer to sell and market its existing and future cellular mobile and fixed network telephone services to the public through their respective network centers and dealers. There were no licensing arrangements in 2001 while balances arising from dealership and co-location were not material.

In addition, the Company has transactions with Globe Telecom in the ordinary course of business arising from Traffic Settlements and lease of certain telecom facilities and equipment. The net receivable from Globe Telecom from these transactions amounted to ₱236.33 million as of December 31, 2001.

Due to Affiliates

This account consists of:

	2001	2000
	(In Thousand Pesos)	
Loan from DeTe Asia GmbH	₱–	₱11,997,578
Payables to DT:		
Loan	**1,587,052**	1,655,184
Technical fees	**4,399**	539,836
Advances for the purchase of property and equipment	–	633,134
	1,591,451	14,825,732
Less current portion	**816,101**	–
	₱775,350	₱14,825,732

Loan from DTA

On December 10, 1999, the BSP approved the availment by the Company of a US$240.0 million loan from DTA, a major stockholder. A portion of the proceeds of such loan amounting to US$182.2 million was used in 1999 to settle a portion of the Company's past due obligations to its suppliers (see Note 7). An additional amount of US$31.6 million was paid to the suppliers in 2000. The balance of US$26.2 million was used to finance the Company's working capital requirements.

The BSP approval requires that the above loan, with original maturity on December 31, 2000 and interest rate at 100 basis points over 3 months LIBOR, shall not be paid upon maturity but shall be converted into DTA's equity in the entity arising from the proposed combination between the Company and Globe Telecom, as may be allowed under existing laws, rules and regulations (see Note 2).

On February 28, 2001, the US$240.0 million (₱11.6 billion) loan from DTA was converted into DTA's equity in the Company following the approval of the NTC of the share swap transaction (see Note 2).

Payables to DT:

Loan

The Company obtained a total of US$30 million emergency loan from DT (US$28.9 million in March 1999 and US$1.1 million in January 2000) which bears interest at the 6 months LIBOR US dollar rate plus a margin of 2%, and is payable on July 31, 2001. The repayment dates were extended to July 1, 2002 for the first US$15 million and June 30, 2003 for the second US$15 million.

Advances for the Purchase of Property and Equipment

On July 10, 1998, the Company also obtained non-interest bearing cash advances from DT amounting to US$12.7 million for the acquisition of property and equipment. This was due and paid on September 2001.

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Technical Fees
The Company and DT entered into a Technical Assistance Agreement (Agreement) whereby DT will provide, for a fee, technical advisory services relating to financial, billing and information management systems and planning services; personnel services; regulatory planning; and marketing research services to enable the Company to comply with its PAs and Certificates of Public Convenience and Necessity. DT subsequently assigned all its rights, title, interests, duties and obligations in the Agreement to Consultancy by Technicus Corporation (C by T) with the conformity of the Company. Technical fees charged to operations amounted to ₱43.4 million and ₱72.3 million in 2001 and 2000, respectively.

Interconnection Income
The Company has interconnection agreements with STI and DT. Interconnection toll income earned from STI amounted to ₱11.47 million and ₱33.37 million for the years ended December 31, 2001 and 2000, respectively. The net receivable balance arising from these transactions as of December 31, 2001 and 2000 amounted to ₱1.24 million and ₱6.81 million, respectively. Transactions with DT resulted to interconnection income of ₱11.39 million and ₱19.67 million for the years ended December 31, 2001 and 2000, respectively, and the net traffic settlement receivable amounted to ₱9.84 million in 2001 and ₱10.05 million in 2000.

13. Stockholders' Equity

The capital stock account consists of:

	(In Thousand Pesos)
Capital stock:	
Class "A" - ₱1 par value	
Authorized - 1,492,000,000 shares	
Issued - 1,000,000,000 shares	₱1,000,000
Class "B" - ₱1 par value	
Authorized - 1,000,000,000 shares	
Issued – 720,000,000 shares	720,000
Class "C" - ₱0.10 par value	
Authorized and issued - 80,000,000 shares	8,000
	₱1,728,000

All shares have the same rights and privileges, except that only Philippine nationals, as defined by Philippine Law, shall be qualified to acquire, own or hold Class "A" and "C" shares.

On January 19, 2001, the BOD of the Company approved the plan for a quasi-reorganization with the objective of eliminating the Accumulated Deficit as of February 28, 2001 amounting to ₱13,270,223,935, by offsetting against the Company's Additional Paid-in Capital.

On May 8, 2001, the SEC approved the Company's plan for a quasi-reorganization. Accordingly, the Company's Stockholders' Equity as of December 31, 2001 was adjusted to reflect the effect of the quasi-reorganization.

In May 2001, AC, STI and DTA pledged, in accordance with the Agreement to Subscribe (Agreement), equity infusion of $155 million to Islacom. Under this Agreement, the equity funding shall be provided to Globe Telecom specifically as a pass-through equity, for Globe Telecom to invest in Islacom to fund the latter's capital and operating requirements. As of December 31, 2001, ₱6,894.96 million has been contributed by Globe Telecom as additional paid-in capital to Islacom.

14. Pension Plan

The formal adoption of a noncontributory, defined benefit pension plan covering substantially all of the Company's employees is still subject to the approval of the Company's BOD. Retirement expense amounted to ₱20.7 million in 2001 and ₱21.0 million in 2000. Based on the actuarial estimates performed by an independent actuary as of December 31, 2001, computed using the projected unit credit cost method, the unfunded actuarial accrued liability amounted to ₱21.5 million. The principal actuarial assumptions used to determine retirement costs were a salary increase of 10% per year and an investment rate of return of 12% per annum.

On May 6, 2000, the BOD approved a resolution implementing a Voluntary Resignation Program (VRP). As of December 31, 2000, there were 272 employees who availed of the program at a total cost of ₱61.5 million.

On January 19, 2001, the BOD approved the proposed staff reduction and reorganization program in preparation for the integration of the Company's operations with Globe Telecom.

In March 2001, the Company implemented the second round of the VRP. There were 369 employees who availed of the program at a total cost of ₱80.5 million. The Company has 421 employees as of December 31, 2001.

The Company's VRP constitutes a curtailment. A curtailment occurs when there is a significant reduction in the number of employees covered by a plan or when an element of future service in respect of existing employees will no longer qualify for benefits. An immediate recognition of any resulting increase in the Company's retirement benefit cost and any resulting gain should be recognized as income in the period in which the curtailment occurs. The gain on plan curtailment amounted to ₱9.1 million in 2001.

15. Operating Cost and Expenses

SFAS No. 1 "Presentation of Financial Statements", as revised, requires presentation of an analysis of expenses, either in the face of the income statement or in the notes to the financial statements. The operating cost and expenses account consists of:

	2001	2000
	(In Thousand Pesos)	
Repairs and maintenance	**₱520,617**	₱449,559
Rent	**450,553**	290,938
Cost of sales	**376,135**	488,799

(Forward)

	2001	2000
	(In Thousand Pesos)	
Selling, advertising and promotion	**₱320,630**	₱119,101
Staff costs	**185,473**	428,914
Utilities, supplies and other administrative expenses	**136,696**	148,126
Services and others	**562,614**	981,056
	₱2,552,718	₱2,906,493
Number of employees at end of year	**421**	958

Cost of sales represents mainly cost of handsets, phonekits and accessories while services and others include professional and management fees, securities and other contractual services and taxes and licenses.

16. Income Taxes

The components of the deferred tax assets and liability are as follows:

	2001	2000
	(In Thousand Pesos)	
Current:		
Deferred tax assets on:		
Allowance for doubtful accounts	**₱716,639**	₱706,105
Unrealized net foreign exchange losses	**128,608**	328,206
Provision for other probable losses	**58,053**	215,743
Allowance for decline in value of inventories	**9,547**	7,217
NOLCO	**2,217,790**	2,834,568
	3,130,637	4,091,839
Less valuation allowance	**3,130,637**	4,091,839
Net current deferred tax assets	**₱–**	₱–
Noncurrent:		
Deferred tax assets on:		
Unamortized pension cost	**₱8,513**	₱14,478
Allowance for probable losses on property and equipment	**137,592**	90,880
	146,105	105,358
Less valuation allowance	**146,105**	105,358
Net noncurrent deferred tax assets	**₱–**	₱–
Deferred tax liability on future non-deductible depreciation on capitalized realized foreign exchange losses - net	**₱–**	₱436,278

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In 2001, the net deferred tax liability was reversed with the alignment of the tax reporting method for foreign exchange differentials with the financial reporting method. Under the financial reporting method and the new tax reporting method, capitalized foreign exchange losses are claimed as deduction through the depreciation over the remaining useful lives of the assets. Previously, for tax reporting purposes, capitalized foreign exchange losses were deducted from taxable income only when realized, that is, upon settlement of the related foreign currency denominated liability. As a result of this change, the net deferred tax liability amounting to ₱436.3 million set up in prior years for the difference between tax and financial reporting was reversed.

The reconciliation of benefit from income tax computed at the statutory tax rates to the provision for (benefit from) income tax reported in the statements of income and deficit follows:

	2001	2000
	(In Thousand Pesos)	
Provision at the statutory tax rates	**(₱752,655)**	(₱1,912,187)
Add (deduct):		
Tax effect of:		
Interest income subjected to lower tax rates	**(27,516)**	(5,108)
Change in valuation allowance	**(920,455)**	2,440,910
Others	**1,264,348**	(136,698)
	(₱436,278)	₱386,917

The tax effect of the Company's NOLCO are as follows:

	2001	2000
	(In Thousand Pesos)	
1998	**₱–**	₱698,401
1999	**924,583**	924,583
2000	**1,187,186**	1,211,584
2001	**106,021**	–
	₱2,217,790	₱2,834,568

17. Change in Accounting Policy for Rebates

In June 2001, the Company changed its method of accounting for rebates on the cost of property and equipment from suppliers (Note 7). The adoption of the new method is to align the Company's accounting with the US GAAP preferred treatment of recognizing these rebates as extraordinary items in the context of the debt restructuring agreed with the suppliers. The gain on debt extinguishment represents the difference between the undiscounted nominal value of future cash flows (interest and principal) versus the carrying value of the restructured debt. The adjustment of ₱2,646.14 million were taken up as extraordinary income reported as cumulative effect of change in accounting policy in the Company's 2001 income statement. The impact of the said adjustment on income taxes are the reversal of a portion of the deferred income tax asset of ₱698.4 million related to the Company's NOLCO which was decreased by ₱2,183 million as a result of the additional income reflected from the rebates and additional deferred tax asset related to the future interest cost. Consequently, the related valuation allowance on the deferred income tax asset on the NOLCO was also reversed.

Pro forma information, which assumes that the rebates were accounted for as extraordinary items in 2001 and 2000, is presented below:

	2001	2000
	(In Thousand Pesos)	
Loss before benefit from (provision for) income tax	**(₱2,352,047)**	(₱5,721,878)
Benefit from (provision for) income tax	**436,278**	(386,917)
Net loss	**(₱1,915,769)**	(₱6,108,795)
Loss per share	**(₱1.06)**	(₱3.39)

18. **Earnings (Loss) Per Share**

Earnings (loss) per share amounts were computed as follows:

	2001	2000
	(In Thousand except for per share amount)	
a. Net income (loss)	**₱730,367**	(₱6,362,500)
b. Weighted average number of outstanding shares	**1,800,000**	1,800,000
c. Earnings (loss) per share (a/b)	**₱0.41**	(₱3.53)

19. **Agreements and Commitments**

a. The Company has existing interconnection and international roaming agreements with various foreign telecommunication companies. These agreements provide for, among others, the sharing of toll revenues derived from the use of the facilities of these companies.

Pursuant to Executive Order (EO) No. 59, the Company has existing interconnection agreements with various domestic carriers, under certain terms and conditions, for the interconnection of the Company's nationwide CMTS, IGF, local exchange and paging system. Under the agreements, the Company is subject to certain interconnection and access charges.

EO No. 59 and its implementing guidelines issued on February 24 and July 23, 1993, respectively, prescribe the compulsory interconnection of authorized public telecommunications carriers in order to create a universally accessible and fully integrated nationwide telecommunications network and thereby encourage greater private sector investment in telecommunications.

b. The Company leases certain office and business centers, switching centers and base transceiver station cell sites under various lease agreements for periods of one to eight years, renewable upon mutual agreement of the contracting parties. The agreements generally require certain amounts of security deposits and advance rentals which are shown as part of the "Other Assets" account in the balance sheets. Total lease expense for the year ended December 31, 2001 and 2000 amounted to about ₱450.55 million and ₱290.00 million, respectively. The aggregate rental commitments on these existing lease agreements amount to about ₱856.46 million as of December 31, 2001.

c. In compliance with the requirements of the licenses granted to the Company mentioned in Note 1, the Company has commissioned various suppliers for the roll-out of its telecom facilities. Billings will be based on the progress of the project installation or construction. While the construction is in progress, the Company accrues the project costs based on the billings received. When the installation or construction is completed and the property is ready for service, the balance of the related purchase orders is accrued. Total accrued project costs on major supply contracts as of December 31, 2001 amounted to about ₱53.45 million (see Note 10). Aside from these accrued project costs, the Company is committed to incur about ₱298.89 million representing expected future payments on on-going projects. The settlement of these liabilities are dependent on the related financing terms obtained for these projects (see Note 11).

d. The Company has an agreement to purchase certain of Tycom Asia Networks, Ltd's (Tycom) investment in shares of stock of C2C Holdings Pte. Ltd. in December 2001. The purchase transaction is pending the completion of the requirements set forth in the said agreement.

20. Contingencies

The Company is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the eventual liability under these claims, if any, will not have a material or adverse effect on the Company's financial position and results of operations.

In addition, the Company is party to Civil Case No. Q-00-42221 entitled "Isla Communications Co., Inc. et. al. versus National Telecommunications Commission (NTC), et. al." before the Regional Trial Court of Quezon City by virtue of which the Company, together with other cellular operators, sought and obtained a preliminary injunction against the implementation of NTC Memorandum Circular No. 13-6-2000. NTC Memorandum Circular No. 13-6-2000 sought, among others, to extend the expiration of prepaid cards to two (2) years. On October 25, 2001, the Company received a copy of the decision of the Court of Appeals (CA) ordering the dismissal of the case before the Regional Trial Court of lack of jurisdiction, but without prejudice to the cellular companies' seeking relief before the NTC which the CA claims had jurisdiction over the matter. On November 7, 2001, the Company filed a Motion for Reconsideration. As of January 22, 2002, the Company has not yet officially received a copy of the decision from the CA. If the CA denies the Company's motion, such a decision would still not be immediately final and executory and cannot be implemented as the Company has a number of remedies available to it. In the event, however, that the Company is not eventually sustained in its position and NTC Memorandum Circular No. 13-6-2000 is implemented in its current form, the Company would probably incur additional cost for carrying and maintaining prepaid subscribers in its network.

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21. Foreign Currency-Denominated Monetary Assets and Liabilities

The Company's foreign currency denominated monetary assets and liabilities and their peso equivalent follow:

	2001		2000	
	(In Thousands)			
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	$3,035	₱156,879	$2,870	₱143,484
Traffic settlement receivables	1,456	75,261	2,561	128,032
	4,491	232,140	5,431	271,516
Liabilities				
Notes payable	–	–	62,944	3,146,595
Traffic settlement payables	387	20,004	2,130	106,490
Accounts payable and accrued expenses	6,896	356,454	2,991	149,517
Due to foreign suppliers	8,775	453,554	53,159	2,657,413
Due to affiliates	30,788	1,591,432	296,574	14,825,732
	46,846	2,421,444	417,798	20,885,747
Net foreign currency denominated liabilities	$42,355	₱2,189,304	$412,367	₱20,614,231

As a result of the translation of these foreign currency denominated assets and liabilities, the Company reported net foreign exchange revaluation gains of ₱180.68 million in 2001 and net foreign exchange revaluation losses of about ₱3,801.1 million in 2000.

Foreign exchange differentials attributed to the restatement of foreign currency denominated liabilities used to finance the acquisition and installation of property and equipment consisted of foreign exchange gains amounting to ₱162.88 million in 2001 and foreign exchange losses amounting to ₱2,900 million in 2000. These foreign exchange differentials were added to or deducted from the cost of the appropriate property and equipment accounts (see Note 7). The foreign exchange differentials arising from restating foreign currency denominated accounts other than those relating to the liabilities/borrowed funds attributed to financing the capital projects were credited or charged to current operations.

22. Reporting Segments

The ASC issued Statement No. 31 "Segment Reporting", effective for financial statements beginning on or after January 1, 2001. This Statement requires that a public business enterprise report financial and descriptive information about its reportable segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Company derives its revenues from the following reportable services:

Cellular Services (CMTS) - represent cellular telecommunications services of the Company that allow subscribers to make and receive local, domestic long distance and international long distance calls to and from any place within the coverage area. The Company's revenues principally consist of one-time registration fees, fixed monthly service fees, revenues from value added services such as text messaging, proceeds from sale of subscriber identity module (SIM) cards and other phone accessories and per minute airtime and toll fees for basic services which vary based primarily on the monthly volume of calls, the network on which the call terminates and the time at which the call is placed.

Fixed Line Services (LEC) - represent fixed line telecommunications services of the Company in its service areas in Regions VI, VII, and VIII which offers subscribers local, domestic long distance and international long distance services including a number of value-added services. Revenues consist principally of fixed monthly basic fee for service and equipment, one-time fixed line service connection fee, and toll fees for domestic and international long distance calls.

Carrier Business (International and National Long Distance Services) - represent international and national long distance services of the Company. The Company offers international long distance services between the Philippines and over 200 countries. The Company routes all international calls from its cellular and fixed line subscribers through its own international gateway. This service generates revenues from both inbound and outbound international call traffic. The outbound call revenues are based on per minute toll fees, which vary based primarily on the type of service, such as direct dial or operator assisted, and the time and destination of the call. Inbound revenues represent settlement payments based on agreed international settlement rates with foreign telecommunications providers who send international traffic to the Company's international gateway facilities. These payments are based upon individual international accounting rate agreements that the Company negotiates with foreign telecommunications providers. Revenues from national long distance services are generated from charges billed for every minute of call outside of local service areas but within the Philippines.

The Company measures performance based on EBIT (earnings before income tax).

The Company's segment information in 2000 and 2001 reported under Philippine GAAP are as follows (in thousands):

2000	CMTS	LEC	CBG	Others (a)	Total
Revenues	₱383,777	₱875,823	₱637,889	₱14,153	₱1,911,642
Operating expenses	1,224,831	1,544,568	77,621	816,950	3,663,970
EBITDA	(841,054)	(668,745)	560,268	(802,797)	(1,752,328)
Depreciation and amortization	558,932	1,554,965	19,407	150,716	2,284,020
Income (loss) from operations	(1,399,986)	(2,223,710)	540,861	(953,513)	(4,036,348)
Other charges (income) –net	586,836	522,261	(24,246)	854,384	1,939,235
Net income (loss) before provision for income tax	(1,986,822)	(2,745,971)	565,107	(1,807,897)	(5,975,583)
Provision for income tax	–	–	–	386,917	386,917
Net income (loss)	(₱1,986,822)	(₱2,745,971)	₱565,107	(₱2,194,814)	(₱6,362,500)
Segment assets	₱4,603,203	₱14,583,184	₱819,343	₱277,064	₱20,282,794
Segment liabilities	₱7,155,901	₱12,764,596	₱1,423,922	₱3,453,997	₱24,498,416

2001	CMTS	LEC	CBG	Others (a)	Total
Revenues	₱1,588,926	₱905,398	₱144,057	₱1,030	₱2,639,411
Operating expenses	1,305,986	795,380	108,784	447,493	2,657,643
EBITDA	282,940	110,018	35,273	(446,463)	(18,232)
Depreciation and amortization	514,219	1,539,260	4,109	27,341	2,084,929
Operating income (loss)	(231,279)	(1,429,242)	31,164	(473,804)	(2,103,161)
Other charges (income) – net	111,017	173,340	(9,258)	(26,213)	248,886
Net income (loss) before benefit from income tax and cumulative effect on change in accounting policy	(342,296)	(1,602,582)	40,422	(447,591)	(2,352,047)
Benefit from income tax	–	–	–	436,278	436,278
Net income (loss) before cumulative effect of change in accounting policy	(342,296)	(1,602,582)	40,422	(11,313)	(1,915,769)
Cumulative effect of change in accounting policy	689,787	2,088,586	–	(132,237)	2,646,136
Net income (loss)	₱347,491	₱486,004	₱40,422	(₱143,550)	₱730,367
Segment assets	₱5,939,981	₱16,551,230	₱796,963	₱426,056	₱23,714,230
Segment liabilities	₱2,396,232	₱2,168,396	₱65,117	₱754,835	₱5,384,580

(a) Includes Corporate Group which represents support services that cannot be directly identified with any of the revenue generating services.

23. Reclassification of Certain Accounts

Certain comparative figures have been reclassified to conform with the current years' presentation.

24. Notes to Cash Flow Statements

The principal non cash transaction for 2001 relates to conversion of debt to equity amounting to ₱11.6 billion and the principal non cash transactions for 2000 are conversion of debt to equity amounting to ₱594 million, reduction in property and equipment for rebates extended by foreign suppliers amounting to ₱324 million, additional liability to suppliers arising from acquisitions of property and equipment amounting to ₱278 million and interest capitalization to property and equipment amounting to ₱17 million.

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EXHIBIT B

cc: Ms. Pila
Mick Chin
Eric Hasan
Ricky Dybanco
Sylvia Serocha
Rec'd 05/19/2000

SGV & Co

SyCip Gorres Velayo & Co
A member firm of Arthur Andersen

3rd Floor Insular Life Bldg.
Cor Gorordo and Gen Maxilom Avenues
Cebu City Philippines

Tel 63(32) 231 7551 to 54
Fax 63(32) 231 9530

www.sgv.com.ph

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
Isla Communications Company, Inc.

We have audited the accompanying balance sheets of Isla Communications Company, Inc. as of December 31, 1999 and 1998, and the related statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated February 3, 1999, our opinion on the 1998 financial statements was qualified with respect to the acquisition of certain property and equipment totaling ₱1.3 billion for which the minutes of the board meeting supporting the approval by the Company's board of directors had not been signed. Accordingly, the Company should have recognized as asset only the advance made to the suppliers amounting to ₱200 million as of December 31, 1998. The financial statements as of December 31, 1998 include the cost of these property and equipment and the corresponding liabilities to the suppliers of ₱1.1 billion. However, as further discussed in Note 3 to the financial statements, the acquisitions were subsequently approved in 1999. Accordingly, our present opinion on the 1998 financial statements, as presented herein, is no longer qualified.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Isla Communications Company, Inc. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

SyCip Gorres Velayo & Co.

PTR No. 963141
January 7, 2000
Cebu City

January 31, 2000

ISLA COMMUNICATIONS COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Status of Operations

As of December 31, 1998, there were certain factors present, including existence of past due liabilities to major suppliers and inability of the Company to settle its bank loans upon maturity, which indicated then that the Company might not be able to continue as a going concern (see Notes 5, 6 and 7). This matter created an uncertainty as to the recoverability of recorded asset amounts and to the amounts and classification of liabilities as of December 31, 1998. The financial statements as of and for the year ended December 31, 1998 were prepared assuming that the Company will continue as a going concern. The financial statements for the year ended December 31, 1998 did not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that would have resulted had the Company been unable to continue as a going concern.

On December 10, 1999, the Bangko Sentral ng Pilipinas (BSP) approved the availment by the Company of a US$240.0 million loan from Deutsche Telekom AG (DT), a major stockholder, through DeTe Asia GmbH (DTA) of Germany. A portion of the proceeds of such loan amounting to US$182.2 million was received in 1999 and was used to settle a portion of the Company's past due obligations to its suppliers (see Notes 6, 7, and 8). An amount of US$16.4 million will be paid to the supplier as soon as certain required approvals are obtained. The balance of US$41.4 million will be used to finance the Company's working capital requirements.

The BSP approval requires that the above loan, with original maturity on December 31, 2000 and interest rate at 100 basis points over 3 months LIBOR, shall not be paid on maturity but shall be converted into DT's equity in the entity arising from the proposed merger between the Company and Globe Telecom, Inc., as may be allowed under existing laws, rules and regulations (see Note 17). Should the debt-to-equity conversion of the entire loan fail to push through due to statutory limitations, that portion of the loan which cannot be accommodated as equity shall be converted into a long-term amortizing loan.

In 1999, the Company and its major suppliers entered into agreements which resulted to the following:

a. Extension by the suppliers of rebates on the cost of property and equipment and services previously purchased by the Company amounting to US$50.8 million (P2.1 billion), which was substantially adjusted against the cost of the related property and equipment.

b. Waiver by the suppliers of interest accruing on the past due amounts amounting to US$34.4 million (P1.4 billion). Of this amount, US$15.8 million (P645.9 million) was recorded as a reduction to the related property and equipment accounts and US$18.6 million (P749.4 million) was credited to "Other Charges (Income)" account in the 1999 statement of income and deficit.

c. Payment by the Company of US$182.2 million (P7.4 billion) of past due accounts to the suppliers.

d. Restructuring of the remaining liabilities to the suppliers after the effect of the rebates, waiver of interest and payments by the Company.

2. Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid short-term investments with maturities of three (3) months or less from date of acquisition to be cash equivalents.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectibility of receivables. Management monitors on a continuous basis those factors which affect the collectibility of receivables and on this basis, assesses the adequacy of the existing allowance for doubtful accounts.

The allowance is calculated based on the age of the receivables, by applying different rates of provisions on the age categories which take into account the Company's historical collection experience. The allowance is increased by provisions and reduced by write-offs. The assumption forming the basis for the rates of provisions applied on age categories, are reviewed periodically based on factors which affect the collectibility of accounts.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the weighted average method.

Allowance is provided for decline in market value equivalent to the difference between the cost and market value of inventories. When inventories are sold, the related allowance is reversed in the same period.

Investments

Investments in shares of stock are carried at cost.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Cost includes interest and foreign exchange losses on borrowed funds used to finance the acquisition of property and equipment. Interest relating to the cost of installing/constructing significant property and equipment is capitalized to the extent incurred during the period of construction or installation.

Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets, or over the lease term, in the case of leasehold improvements, whichever is shorter.

Minor costs of maintenance and repairs are charged to income as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Preoperating Expenses and Deferred Charges

Expenses incurred prior to the start of full commercial operations which have been capitalized (net of preoperating revenues) are amortized over a period of 10 years from the start of regular commercial operations.

Revenue and Cost and Expense Recognition

Operating revenues include billings for all telecommunication services provided, which are accounted for on the accrual basis and stated net of the share of other telecommunications administrations, if any, under existing correspondence and interconnection agreements. Interconnection fees and charges are based on agreed rates with the other carriers. Operating expenses are recorded as incurred.

One-time registration fees received from certain mobile subscribers are included under net operating revenues. The related costs incurred in connection with the acquisition of subscribers are charged to operations. Subscriber acquisition costs exceed the one-time registration fees.

Installation fees received from certain landline subscribers are also credited to operating revenues.

Revenues from prepaid cards,are recorded upon delivery of prepaid cards to the dealers.

Retirement Costs

The Company accrues retirement costs required to be paid to qualifying employees under Republic Act (RA) No. 7641, which approximates the amount required following the provisions of Statement of Financial Accounting Standards (SFAS) No. 24, "Retirement Benefits Cost." Unrecognized experience adjustments and past service costs are amortized over the expected remaining working lives of the employees.

Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in Philippine peso based on the exchange rate prevailing at the date of the transactions. Foreign currency denominated monetary assets and liabilities are stated at the exchange rate prevailing at balance sheet dates. Exchange gains or losses arising from the subsequent settlement or restatement of receivables and liabilities at exchange rates different from those at which the receivables or liabilities are recorded are credited or charged to current operations, except for losses from foreign currency-denominated liabilities used to finance the acquisition of property and equipment, which are capitalized as part of the cost of the related property and equipment.

Income Tax

Deferred tax assets and liabilities are recognized for: (1) the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases; and, (2) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some portion of or all of the deferred tax assets will not be realized.

3. Property and Equipment

Property and equipment consist of:

	1999	1998
Land	₱123,197,079	₱116,032,536
Building	638,732,971	631,150,311
Leasehold improvements	101,119,738	84,676,070
Telecommunications equipment and facilities	15,275,289,385	13,137,890,259
Office furniture, fixtures and equipment	242,764,779	200,177,362
Transportation equipment	84,976,616	81,845,045
	16,466,080,568	14,251,771,583
Less accumulated depreciation and amortization	1,885,912,196	813,354,530
	14,580,168,372	13,438,417,053
Construction in progress	3,203,144,476	6,203,726,632
	₱17,783,312,848	₱19,642,143,685

Foreign exchange losses and interest (net of rebates - see Note 1) capitalized to (credited from) property and equipment during the year amounted to:

	1999	1998
Foreign exchange losses - net	₱243,512,021	₱58,404,084
Interest	(464,986,956)	339,162,558
	(₱221,474,935)	₱397,566,642

On April 2, 1998, the Company entered into a Memorandum of Agreement (MOA) with Liberty Broadcasting Network, Inc. (LBNI), for the purchase and right to use of the microwave backbone transmission network of LBNI at a contract price of US$18.4 million, on which the Company made a downpayment equivalent to 20% of the contract price. The balance amounting to US$14.7 million has not been paid as of December 31, 1999 and 1998, and is presented as part of the "Accounts Payable and Accrued Expenses" account in the balance sheets.

In 1999, the Company and LBNI became involved in a dispute, in which both the Company and LBNI have raised alleged violations by the other party of the terms of the agreement entered into.

The Company has not used the equipment and does not see any use for such equipment in the foreseeable future. Accordingly, for conservatism, the Company charged to operations the book value of the liberty microwave backbone transmission equipment.

On April 30, 1998, the Company entered into a Memorandum of Understanding (MOU) with Prosperity Properties & Management Corp. (PPMC) covering the Company's purchase of certain condominium units at the Abacus Financial Center totaling ₱610.9 million, excluding value-added tax, documentary stamps, transfer tax, and registration fees.

The minutes of the board meeting supporting the approval by the Company's board of directors covering the foregoing assets has not been signed as of February 3, 1999, the date of the auditors' original report on the December 31, 1998 financial statements. However, these acquisitions were subsequently approved in 1999.

In 1999, the Company's major foreign suppliers extended rebates on the purchase cost of property and equipment previously acquired by the Company and waived a portion of unpaid interest previously capitalized to property and equipment. Total rebates and interest waived which were adjusted against the property and equipment account amounted to ₱2.7 billion (see Note 1).

4. Other Assets

Other assets consist of:

	1999	1998
Preoperating expenses and deferred charges - net	₱602,348,634	₱679,389,233
Input taxes	399,371,742	414,302,560
Rental deposits and others (see Note 13)	55,592,660	86,113,499
Investments in shares of stock - at cost	3,258,550	3,200,550
Deferred tax assets (see Note 11)	-	126,101,026
	₱1,060,571,586	₱1,309,106,868

5. Bank Loans

These consist of foreign currency-denominated loans availed from the following banks:

	Amount			
	U.S. Dollar		Philippine Peso	
Banks	1999	1998	1999	1998
Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzontrale				
Principal	53,000,000	53,000,000	2,135,794,000	2,074,635,000
Interest converted to principal	–	3,336,144	–	130,593,354
Citibank, NA	9,944,500	1,280,981	400,743,460	50,144,001
Deutsche Bank Aktiengesellschaft	–	8,700,000	–	340,561,500
	62,944,500	66,317,125	2,536,537,460	2,595,983,855

Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzontrale

The loans from Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzontrale (the Banks) represent the proceeds from the short-term credit facility totaling US$80.0 million. Under the terms and conditions of the agreement, the loans are secured by a corporate guarantee by DT.

The Company's loans, interest thereon, and commitment fees due to the said Banks became due on May 29, 1998. Since then, the maturity has been extended by the Banks for 60-day periods. The Board of Directors approved all extensions and renewals of the loan maturity in a meeting dated May 11, 1999. The last extension granted by the Banks was up to April 28, 2000, subject to the submission on April 15, 2000 of all the necessary corporate approvals to the amendments of the agreement including board approval and the certificate of registration from the Bangko Sentral ng Pilipinas of the extension of the loan. Failure of the Company to comply with such requirements shall make the loan due and payable as if an Event of Default has occurred, as provided under the existing agreement. As of January 31, 2000, these documents have yet to be submitted to the banks.

On November 4, 1999, the Bangko Sentral ng Pilipinas (BSP) approved the extension of the final maturity date of the loan from October 28, 1999 to January 27, 2000.

Citibank, NA

The loan from Citibank was substantially availed in December 1999, and is due on November 4, 2000.

The principal amount of the bank loans and unpaid interest converted to principal bear interest at prevailing market rates, which in 1999 and 1998, were as follows:

	1999	1998
Chase Manhattan International Finance, Ltd. and Westdeutsche Landesbank Gironzentrale	5.9%	5.9%
Citibank, NA	8.7%	6.7% - 8.1%
Deutsche Bank Aktiengesellschaft	7.4%	7.6%

Interest on the loans are paid as these become due. Accrued interest payable on the above loans amounted to ₱25.3 million and ₱15.1 million as of December 31, 1999 and 1998, respectively, and are included as part of the "Accounts Payable and Accrued Expenses" account in the balance sheets (see Note 6).

6. Accounts Payable and Accrued Expenses

Account payable and accrued expenses consists of:

	1999	1998
Trade payables (see Notes 1 and 3)	₱1,916,159,401	₱4,350,508,875
Accrued expenses (see Notes 10 and 15)	1,235,330,384	390,205,046
Refundable deposits	48,838,590	38,663,580
Interest (see Note 5)	25,286,587	15,125,926
Retention	9,719,517	21,907,988
Others	115,753,692	41,313,532
	₱3,351,088,171	₱4,857,724,947

As discussed in Note 1 to the financial statements, the Company, in 1999, paid ₱2.5 billion of its past due trade payables and finalized agreements with major suppliers on the restructuring of the

7. Due to Foreign Suppliers

Following are the amounts due to foreign suppliers for billed goods and services:

	Amount			
	US Dollar		Philippine Peso	
Suppliers	1999	1998	1999	1998
Siemens Aktiengesellschaft (Siemens)				
LEC	21,509,725	124,705,979	866,798,898	4,331,615,533
x CMTS - Stages I, II and III	6,719,969	24,997,662	270,801,311	978,533,464
Lucent Technologies, Inc. (Lucent)	18,460,492	64,301,283	743,920,892	2,536,646,240
Alcatel SEL Aktiengesellschaft (Alcatel)	28,764,192	25,345,803	1,159,139,409	992,161,456
Krone Aktiengesellschaft (Krone)	1,668,468	5,897,108	67,235,923	230,342,296
Digital Microwave Corporation (DMC)	203,126	203,126	8,185,572	7,951,367
Others	124,479	193,880	5,016,273	7,589,422
	77,450,451	246,144,841	3,121,098,278	9,635,339,778
Less current portion	62,400,446	245,941,715	2,514,613,183	9,627,388,411
Long-term portion	15,050,005	203,126	606,485,095	7,951,367

The Company, in compliance with the requirements of its Provisional Authorities as a cellular mobile telephone service (CMTS) and international gateway facility (IGF) operator, entered into contracts with foreign suppliers subject to certain terms and conditions as mutually agreed upon by the parties:

a. On February 23, 1996, as amended, with Lucent for the installation of about 350,000 fixed line telephone connections. The first and second phases of this contract comprise about 120,000 lines for a contract amount of US$176.0 million, as revised.

b. On July 13 and 18, 1996, with Siemens and Siemens, Inc. for the installation of about 350,000 fixed line telephone connections and outside plant network, respectively. The first and second phases of these contracts comprise about 208,190 lines for a contract amount of US$232.0 million, as revised.

c. On May 9, 1997, with Alcatel for the supply and installation of 72 base transceiver stations and 8 base station controllers relating to Stage 3 of the global system for mobile communications (GSM) project for a contract amount of US$39.0 million, as revised.

d. On June 2, 1997, as amended, with Krone for the supply and installation of 32,550 wireless local loop lines with 42 units base station telecell for a contract amount of US$29.0 million, as revised.

e. On November 28, 1997, with Siemens for the supply of equipment and related services covering the GSM Network Expansion Program, covering, but not limited to: base station subsystem, mobile service switching center, visitor location register, home location register and operation systems.

(Brought forward)

	Year Ended December 31	
	1999	1998
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	₱120,721,541	₱45,250,917
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Reduction in property and equipment on rebates extended by foreign suppliers	₱2,690,203,384	₱-
Liability to suppliers arising from acquisitions of property and equipment	950,749,750	5,899,856,519
Additions to property and equipment due to foreign exchange losses related to foreign currency denominated payables	243,512,021	58,404,084
Interest capitalized to property and equipment	180,891,523	339,162,558

See accompanying Notes to Financial Statements.

These financial statements have been [illegible] from the company's books and records after making all [illegible] adjustments thereto, and [illegible] present the final statements for the period under examination.

By____________________

Chief Financial Officer

ISLA COMMUNICATIONS COMPANY, INC.

BALANCE SHEETS

	December 31	
	1999	1998
ASSETS		
Current Assets		
Cash and cash equivalents	₱103,706,337	₱295,599,352
Trade receivables - net of allowance for doubtful accounts of ₱1,465,653,327 in 1999 and ₱821,407,433 in 1998	809,373,337	419,003,708
Traffic settlements receivable - net of traffic settlements payable (Note 12)	52,293,389	53,114,385
Inventories - net of allowance for decline in value of ₱22,508,613 in 1999 and ₱7,363,091 in 1998	47,320,022	62,321,946
Other current assets - net of allowance for doubtful accounts of ₱11,143,119 in 1999 and ₱7,000,000 in 1998	171,630,150	63,996,300
Total Current Assets	1,184,323,235	894,035,691
Property and Equipment - net (Notes 1, 3, 6, 7, 8, 13 and 16)	17,783,312,848	19,642,143,685
Other Assets - net (Notes 4, 11 and 13)	1,060,571,586	1,309,106,868
	₱20,028,207,669	₱21,845,286,244
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Notes 1 and 5)	₱2,536,537,460	₱2,595,983,855
Accounts payable and accrued expenses (Notes 1, 3, 5, 6, 10 and 15)	3,351,088,171	4,857,724,947
Traffic settlements payable - net of traffic settlements receivable (Note 12)	530,148,652	502,215,628
Current portion of due to foreign suppliers (Notes 1 and 7)	2,514,613,183	9,627,388,411
Total Current Liabilities	8,932,387,466	17,583,312,841
Deferred Income Tax (Note 11)	49,360,990	–
Due to Foreign Suppliers - net of current portion (Notes 1 and 7)	606,485,095	7,951,367
Due to Affiliates (Notes 1 and 8)	9,528,710,299	876,404,967
Stockholders' Equity		
Capital stock (Note 9)	8,018,348,650	8,018,348,650
Deficit	(7,107,084,831)	(4,640,731,581)
	911,263,819	3,377,617,069
	₱20,028,207,669	₱21,845,286,244

See accompanying Notes to Financial Statements.

These financial statements have been [illegible] from the company's books and records [illegible] making all necessary adjustments thereto [illegible] they [illegible] to final statements for the period under examination.

By ______________________

Chief Financial Officer

ISLA COMMUNICATIONS COMPANY, INC.

STATEMENTS OF INCOME AND DEFICIT

	Years Ended December 31	
	1999	1998
REVENUES (Note 12)		
Transmission	₱1,793,960,037	₱1,028,500,921
Nontransmission	1,079,178,240	717,378,608
Lease	36,476,526	61,807,661
	2,909,614,803	1,807,687,190
TRAFFIC COSTS (Note 12)	714,019,261	822,344,616
	2,195,595,542	985,342,574
OPERATING EXPENSES (Notes 1, 8, 10, 13 and 15)	4,553,123,307	2,795,241,211
LOSS FROM OPERATIONS	2,357,527,765	1,809,898,637
OTHER CHARGES (INCOME) - Net (Notes 1 and 16)	(66,636,531)	642,637,856
LOSS BEFORE INCOME TAX	2,290,891,234	2,452,536,493
PROVISION FOR INCOME TAX - Deferred (Note 11)	175,462,016	42,579,934
NET LOSS	2,466,353,250	2,495,116,427
DEFICIT AT BEGINNING OF YEAR	4,640,731,581	2,145,615,154
DEFICIT AT END OF YEAR	₱7,107,084,831	₱4,640,731,581

See accompanying Notes to Financial Statements.

ISLA COMMUNICATIONS COMPANY, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(₱2,466,353,250)	(₱2,495,116,427)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,794,724,075	778,496,696
Provision for doubtful accounts	648,389,013	266,185,197
Provision for deferred income tax	175,462,016	42,579,934
Unrealized foreign exchange gain	(103,697,041)	–
Amortization of preoperating expenses and deferred charges	77,040,599	75,573,399
Provision for decline in value of inventories	15,145,522	–
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Trade receivables	(1,034,615,523)	(537,117,505)
Traffic settlements receivable	(122,118)	14,657,119
Inventories	(143,598)	61,075,281
Other current assets	(111,776,969)	(4,652,711)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,511,434,180)	173,678,566
Traffic settlements payable	40,308,105	450,168,252
Net cash used in operating activities	(2,477,073,349)	(1,174,472,199)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(1,250,943,328)	(714,559,520)
Decrease (increase) in other assets	45,393,657	(179,992,223)
Net cash used in investing activities	(1,205,549,671)	(894,551,743)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due to an affiliated company	8,677,317,402	224,194,305
Decrease in due to foreign suppliers	(5,021,280,687)	(297,235,897)
Payments of bank loans	(525,456,169)	–
Proceeds from bank loans	400,743,460	1,253,764,373
Net cash provided by financing activities	3,531,324,006	1,180,722,781
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(40,594,001)	–
NET DECREASE IN CASH AND CASH EQUIVALENTS	(191,893,015)	(888,301,161)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	295,599,352	1,183,900,513
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱103,706,337	₱295,599,352

(Carried forward)

The amounts due to foreign suppliers bear interest at prevailing market rates, based on LIBOR US dollar rate plus a margin ranging from 1% - 3% per annum in 1999 and 1998.

As discussed in Note 1 to the financial statements, in 1999, the Company paid ₱4.9 billion of the past due liabilities to its foreign suppliers, and finalized agreements on the restructuring of the remaining liabilities. Under the agreements, the outstanding liabilities are payable over a period of 2 years up to September 2001.

8. Related Party Transactions

The " Due to Affiliates " account consists of the following:

	US Dollar		Philippine Peso	
	1999	1998	1999	1998
Payable to DT				
Loan	30,039,019	–	1,210,512,392	–
Advances for purchase of property and equipment	12,655,210	12,655,210	509,979,642	495,388,185
Technical Fees	11,386,910	9,733,472	458,869,699	381,016,782
Loan from DTA	182,375,020	–	7,349,348,566	–
	236,456,159	22,388,682	9,528,710,299	876,404,967

The loan from DT bears interest at an annual rate set at 6 months LIBOR US dollar rate plus a margin of 2%, and is payable on July 31, 2001.

The Company availed of non-interest bearing advances from DT for the acquisition of property and equipment.

The loan from DTA represents the amount received in 1999 on the US$240.0 million shareholder loan, intended for conversion to equity (see Note 1).

<u>Other Related Party Transactions</u>

The Company and DT entered into a Technical Assistance Agreement pursuant to which DT will provide, for a fee, technical advisory services relating to financial, billing and information management systems and planning services; personnel services; regulatory planning; and marketing research services to enable the Company to comply with its Provisional Authorities and Certificates of Public Convenience and Necessity. The Agreement is for a period of three (3) years from October 29, 1996, renewable upon mutual consent of the parties and subject to the approval of the Philippine Technology Transfer Registry. The parties have agreed to the renewal of the agreement up to December 31, 2000.

Technical fees charged to operations amounted to ₱232.8 million and ₱259.2 million in 1999 and 1998, respectively.

9. Capital Stock

Capital stock consists of:

Capital stock:	
Class "A" - ₱1 par value	
Authorized - 1,492,000,000 shares	
Issued - 1,000,000,000 shares	₱1,000,000,000
Class "B" - ₱1 par value	
Authorized - 1,000,000,000 shares	
Issued - 720,000,000 shares	720,000,000
Class "C" - ₱0.10 par value	
Authorized and issued - 80,000,000 shares	8,000,000
Additional paid-in capital	6,286,796,246
	8,014,796,246
Deposits on future stock subscription	3,552,404
	₱8,018,348,650

All shares have the same rights and privileges, except that only Philippine nationals, as defined by Philippine Law, shall be qualified to acquire, own or hold Class "A" and "C" shares.

10. Retirement Plan

The Company provides for the estimated retirement costs required to be paid under R. A. 7641 to qualifying employees. Retirement expense amounted to ₱17.9 million in 1999. Based on the actuarial estimates performed by an independent actuary as of July 1, 1998, computed using the projected unit credit cost method, the unfunded actuarial accrued liability amounted to ₱20,730,100. The principal actuarial assumptions used to determine retirement costs were a salary increase of 10% per year and return on plan assets of 12% per year.

As of January 31, 2000, the formal adoption of a noncontributory defined benefit pension plan covering substantially all of the Company's employees is still subject to the approval of the Company's Board of Directors.

11. Income Tax

The components of the deferred tax assets (included under "Other Assets" account - see Note 4) and liability are as follows:

	1999	1998
Deferred tax assets		
NOLCO	₱1,622,984,308	₱698,400,551
Allowance for doubtful accounts and others	489,587,079	286,859,780
	2,112,571,387	985,260,331
Less valuation allowance	1,756,287,898	859,159,305
	356,283,489	126,101,026
Deferred tax liability		
Realized foreign exchange losses - net	405,644,479	–

Republic Act No. 8424 entitled, "An Act Amending the National Internal Revenue Code, As Amended, and For Other Purposes," was passed into law effective January 1, 1998. Among others, the Act includes the following significant revisions:

a. Change in the corporate income tax rate to 34% in 1998, 33% in 1999, and 32% in 2000 and onwards;

b. Imposition of a minimum corporate income tax of 2% of gross income, as defined;

c. Imposition on the employer of a final tax on the grossed up monetary value of fringe benefits granted to employees (except rank and file) at the following rates: 34% in 1998, 33% in 1999, and 32% in 2000 and onwards;

d. Reduction of the interest allowed as a deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 41% starting January 1, 1998, 39% starting January 1, 1999, and 38% starting January 1, 2000 and onwards; and,

e. Introduction of a three-year NOLCO.

The reconciliation of the benefit from deferred income tax on loss before income tax computed at the statutory tax rates to the provision for deferred income tax reported in the statements of income and deficit follows:

	1999	1998
Benefit from income tax computed at the statutory tax rates	(₱755,994,107)	(₱833,862,408)
Add (deduct) income tax effect of the following:		
Valuation allowance on deferred tax assets	912,476,269	838,584,286
Adjustment due to the change in income tax rates for temporary differences in the expected years of recovery or reversal	23,031,695	56,070,318
Interest income already subjected to a final tax	(4,051,841)	(18,212,262)
	₱175,462,016	₱42,579,934

12. Interconnection Agreements

The Company has existing interconnection and international roaming agreements with various foreign telecommunication companies. The agreements provide for, among others, the sharing of toll revenues derived from the use of the facilities of these companies.

Pursuant to E.O. No. 59, the Company has existing interconnection agreements with various domestic carriers, under certain terms and conditions, for the interconnection of the Company's nationwide CMTS, IGF, local exchange and paging system. Under the agreements, the Company is subject to certain interconnection and access charges.

E.O. No. 59 and its implementing guidelines issued on February 24 and July 23, 1993, respectively, prescribe the compulsory interconnection of authorized public telecommunications carriers in order to create a universally accessible and fully integrated nationwide telecommunications network and thereby encourage greater private sector investment in telecommunications.

13. Lease Commitments

The Company leases certain office and business centers, switching centers and base transceiver station cell sites under various lease agreements for periods of one to eight years, renewable upon mutual agreement of the contracting parties. The lease agreements generally require certain amounts of security deposits and advance rentals which are included in the "Other Assets" account in the balance sheets.

The approximate annual aggregate rental commitments on existing lease agreements are as follows:

2000	P106.9 million
2001	93.9 million
2002	98.4 million
2003	104.3 million
2004	110.2 million

14. Registrations with the Board of Investments (BOI)

The Company is registered with the BOI under the Omnibus Investments Code of 1987 [otherwise known as Executive Order (E.O.) No. 226] as follows:

a. A new operator of CMTS on a nonpioneer status.

b. A new operator of an IGF in Cebu on a nonpioneer status.

c. An expanding operator, on a nonpioneer status, of public telecommunications services.

The Company has not availed of any incentives on its BOI registration. The tax exemption benefits previously availed were by virtue of the Company's legislative franchise, rulings of the Department of Finance and the Bureau of Local Government-Finance.

15. Contingent Liabilities

On July 14, 1997, the Company was assessed by the NTC for additional supervision and regulatory fees amounting to P11.1 million. The assessment was based on Section 40(c) of the Public Service Act, as amended, at the rate of P0.50 for each P100 or a fraction thereof of the capital stock subscribed or paid.

E.O. No. 59 and its implementing guidelines issued on February 24 and July 23, 1993, respectively, prescribe the compulsory interconnection of authorized public telecommunications carriers in order to create a universally accessible and fully integrated nationwide telecommunications network and thereby encourage greater private sector investment in telecommunications.

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a. A new operator of CMTS on a nonpioneer status.

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c. An expanding operator, on a nonpioneer status, of public telecommunications services.

The Company has not availed of any incentives on its BOI registration. The tax exemption benefits previously availed were by virtue of the Company's legislative franchise, rulings of the Department of Finance and the Bureau of Local Government-Finance.

15. Contingent Liabilities

On July 14, 1997, the Company was assessed by the NTC for additional supervision and regulatory fees amounting to ₱11.1 million. The assessment was based on Section 40(e) of the Public Service Act, as amended, at the rate of ₱0.50 for each ₱100 or a fraction thereof of the capital stock subscribed or paid.

On July 17, 1998, an additional assessment was made by the NTC for supervision and regulatory fees amounting to ₱40.1 million. The assessment was made at the rate of ₱0.50 for each ₱100 or a fraction thereof of the total capital stock of the Company. The Company decided not to pay the assessed supervision and regulatory fees based on the assertion that these fees should be based only on the par value of the capital stock (i.e., excluding stock dividends and premiums). The Company's assertion was based on the case filed by other telecommunication operators to contest the assessment. The case is still pending final resolution of the Philippine Supreme Court. Should the Philippine Supreme Court rule in favor of the NTC, the Company will be subjected to a penalty for late payment of 50% of the unpaid amount plus 1% monthly interest thereon. The Company paid ₱8.6 million of the amount assessed by NTC. All payments made were under protest.

The Company has accrued ₱130.3 million and ₱51.3 million (representing the unpaid balance of the assessment plus an estimate of penalties and surcharges) as of December 31, 1999 and 1998, respectively which are included as part of "Accounts Payable and Accrued Expenses" account in the balance sheets.

16. Foreign Currency Denominated Monetary Assets and Liabilities

The Company's foreign currency denominated monetary assets and liabilities and their peso equivalent follow:

	1999		1998	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Traffic settlements receivable	4,215,699	169,884,241	2,395,161	93,758,577
Liabilities				
Bank loans	62,944,500	2,536,537,460	66,317,125	2,595,983,855
Traffic settlements payable	3,604,568	145,256,862	6.172.474	241,621,495
Accounts payable and accrued expenses	17,392,649	700,888,976	67,761,394	2,652,519,768
Due to foreign suppliers	77,450,451	3,121,098,278	246,144,841	9,635,339,778
Due to affiliates	236,456,159	9,528,710,299	22,388,682	876,404,967
	397,848,327	16,032,491,875	408,784,516	16,001,869,863
Net Foreign Currency Denominated Liabilities	393,632,628	15,862,607,634	406,389,355	15,908,111,286

Foreign exchange gains and losses on the restatement of foreign currency denominated liabilities used to finance the acquisition and installation of property and equipment amounting to ₱243.5 million and ₱58.4 million in 1999 and 1998, respectively were recorded as an addition to the cost of the appropriate property and equipment accounts. The foreign exchange differentials arising from restating foreign currency denominated accounts other than those relating to the liabilities/borrowed funds used to finance the capital projects were credited or charged to current operations.

The Company has the ability to bill its subscribers through a foreign currency adjustment (FCA) mechanism based on the provisional authority granted by NTC. Under such FCA facility, telecommunications companies are allowed to pass on to the subscribers the foreign currency adjustments on loans used to build the telecommunications infrastructure. Thus, a certain percentage of billed amounts are charged with such FCA.

17. Merger with Globe Telecom, Inc.

In May 1999, certain stockholders of the Company sold their indirect controlling interest in the Company to Ayala Corporation (AC), a major shareholder of Globe Telecom, Inc. (Globe). Globe is a local provider of GSM cellular, fixed line and international long distance services. The acquisition is part of an agreement between DT, the Company's major shareholder and Globe's major shareholders, AC and Singapore Telecom International (Singtel), to explore a possible merger of their respective operations.

On November 5, 1999, DT, AC and Singtel signed an agreement outlining the basic terms of a merger between the Company and Globe. Under the terms of the agreement, the three parties will work together to finalize a structure and the mechanics of a merger of the two companies.

EXHIBIT C

SEC Number 142356

File Number

CITADEL HOLDINGS, INC.

(Company's Full Name)

4th Floor SGV II Building, 6758 Ayala Avenue, Makati City

(Company's Address)

812-7711

(Telephone Number)

December 31

(Fiscal Year Ending)

(month & day)

Audited Financial Statements

Form Type

Amendment Designation (If applicable)

December 31, 2001

Period Ended Date

(Secondary License Type and File Number)

CITADEL HOLDINGS, INC.

4th Floor, SGV II Building, Ayala Avenue, Makati City
Telephone No. 812-7711, Fax No. 812-7719

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Citadel Holdings, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2001 and 2000. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

J.B. Santos & Associates, an independent auditing firm and appointed by the stockholders, has audited the financial statements of the Company in accordance with generally accepted auditing standards and has expressed their opinion on the fairness of presentation, upon completion of such audit, in their report to stockholders.

The independent certified public accountants' responsibility for the financial statements required to be filed with the Commission is confined to the expression of their opinion on such statements that they have examined.

JOSE RICARDO P.R. DELGADO
TREASURER

RAMON S. MONZON
EVP/COO/CFO

J.B. SANTOS & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

565 M. FACUNDO STREET
PASAY CITY, METRO MANILA
TEL. NO. 805-5253 • TELEFAX NO. 800-8167

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Stockholders and Board of Directors
Citadel Holdings, Inc.
4th Floor SGV II Building
6758 Ayala Avenue
Makati City

We have audited the accompanying parent company balance sheets of Citadel Holdings, Inc. as of December 31, 2001 and 2000, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

We did not audit the financial statements of various subsidiaries, and the investment in those subsidiaries is reflected in the accompanying financial statements using the equity method of accounting. The investment in those subsidiaries represents about 6% and 9% of the Company's total assets as of December 31, 2001 and 2000, respectively, and the related equity in net earnings amounts to about ₱0.6 million and ₱12 million for the years then ended. These statements were audited by other auditors whose reports thereon has been furnished to us, and the opinion expressed herein, insofar as it relates to the amounts in those subsidiaries is based solely upon the report of the other auditors.

In our opinion, based on our examination and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Citadel Holdings, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

J. B. SANTOS
CPA Certificate No. 24941
PTR No. 9977566 U
January 21, 2002
Pasay City

SEP 27 2002

May 31, 2002

CITADEL HOLDINGS, INC.

PARENT COMPANY BALANCE SHEETS

	December 31	
	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**₱40,811,331**	₱25,695,388
Receivables - net (Note 4)	**7,054,523**	30,518,883
Due from affiliated companies (Note 9)	**153,119,012**	153,062,077
Other current assets (Note 12)	**370,491**	628,886
Total Current Assets	**201,355,357**	209,905,234
Noncurrent Assets		
Noncurrent Receivables - net (Note 5)	**19,777,560**	19,777,560
Investments and Advances (Notes 6 and 9)	**1,388,822,679**	1,347,247,494
Property and Equipment - net (Note 7)	**31,063,091**	36,658,476
Other Assets – net (Note 8)	**13,579,761**	13,714,888
Total Noncurrent Assets	**1,453,243,091**	1,417,398,418
	₱1,654,598,448	₱1,627,303,652
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	**₱22,960,194**	₱22,713,418
Due to affiliated companies (Note 9)	**113,536,298**	122,816,800
Deferred tax liability - net (Note 12)	**2,191,802**	–
Total Current Liabilities	**138,688,294**	145,530,218
Noncurrent Liabilities		
Subscriptions Payable (Note 6)	**65,462,500**	87,025,000
Stockholders' Equity		
Capital stock - ₱100 par value		
Authorized - 20,000,000 shares		
Issued - 12,150,000 shares	**1,215,000,000**	1,215,000,000
Deposits for future subscriptions	**120,135,278**	120,135,278
Retained earnings	**115,312,376**	59,613,156
	1,450,447,654	1,394,748,434
	₱1,654,598,448	₱1,627,303,652

See accompanying Notes to Parent Company Financial Statements.

CITADEL HOLDINGS, INC.
PARENT COMPANY STATEMENTS OF INCOME

	Years ended December 31	
	2001	2000
REVENUES		
Gain on disposals of investments - net (Note 6)	₱89,305,792	₱1,103,401
Foreign exchange gain – net	8,973,675	38,234,018
Interests	5,964,412	21,561,320
Management fees (Note 9)	2,108,467	9,862,531
Miscellaneous	29,796	374,259
	106,382,142	71,135,529
COST AND EXPENSES		
Salaries, wages and employees' benefits	14,178,541	14,928,755
Rent and utilities (Note 10)	8,086,646	6,062,729
Professional fees	8,021,936	7,745,591
Depreciation and amortization	5,915,862	5,600,618
Travel and transportation	5,576,797	4,391,012
Representation and entertainment	1,433,555	2,181,421
Retirement expense (Note 11)	862,140	14,004,999
Taxes and licenses	814,122	862,660
Dues and subscription	765,018	942,513
Insurance	594,475	455,953
Office supplies	542,256	373,258
Interest	245,652	1,009,211
Loss on sale of short-term investments	–	545,075,167
Miscellaneous	1,031,654	467,187
	48,068,654	604,101,074
INCOME (LOSS) BEFORE EQUITY IN NET EARNINGS (LOSSES) OF INVESTEE COMPANIES	58,313,488	(532,965,545)
EQUITY IN NET EARNINGS (LOSSES) OF INVESTEE COMPANIES (Note 6)	599,607	(1,964,320)
INCOME (LOSS) BEFORE INCOME TAX	58,913,095	(534,929,865)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 12)		
Current	731,510	910,367
Deferred	2,482,365	(40,202,490)
	3,213,875	(39,292,123)
NET INCOME (LOSS)	₱55,699,220	(₱495,637,742)

See accompanying Notes to Parent Company Financial Statements.

CITADEL HOLDINGS, INC.

PARENT COMPANY STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years ended December 31	
	2001	2000
CAPITAL STOCK	**₱1,215,000,000**	₱1,215,000,000
DEPOSITS FOR FUTURE SUBSCRIPTIONS	**120,135,278**	120,135,278
RETAINED EARNINGS		
Balance at beginning of year	**59,613,156**	555,250,898
Net income (loss)	**55,699,220**	(495,637,742)
Balance at end of year	**115,312,376**	59,613,156
	₱1,450,447,654	₱1,394,748,434

See accompanying Notes to Parent Company Financial Statements.

CITADEL HOLDINGS, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (loss)	**₱55,699,220**	(₱495,637,742)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	**5,915,862**	5,600,618
Provision for (benefit from) deferred income tax	**2,482,365**	(40,202,490)
Provision for retirement benefit	**862,140**	862,140
Equity in net (earnings) losses of investee companies	**(599,607)**	1,964,320
Unrealized foreign exchange loss (gain)	**(9,041,584)**	(23,595,605)
Dividends received from investee companies	**–**	10,434,048
Operating income (loss) before changes in working capital	**55,318,396**	(540,574,711)
Changes in operating assets and liabilities		
Increase (decrease) in:		
Receivables	**23,464,360**	48,061,799
Other current assets	**(32,168)**	(7,686)
(Increase) decrease in accounts payable and accrued expenses	**(615,364)**	1,155,885
Net cash provided by (used in) operating activities	**78,135,224**	(491,364,713)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in:		
Investments and advances	**(33,361,578)**	352,562,518
Property and equipment	**(320,477)**	(854,562)
Other assets	**135,127**	923,777
Increase (decrease) in subscriptions payable	**(21,562,500)**	33,125,000
Net cash provided by (used in) investing activities	**(55,109,428)**	385,756,733
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease (increase) in net advances to affiliated companies	**(9,337,437)**	57,780,884
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**13,688,359**	(47,827,096)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,427,584**	422,049
	15,115,943	(47,405,047)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**25,695,388**	73,100,435
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱40,811,331**	₱25,695,388

See accompanying Notes to Parent Company Financial Statements.

CITADEL HOLDINGS, INC.
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. General

Citadel Holdings, Inc. (the Parent Company) was incorporated on July 13, 1987 primarily to invest in, purchase, exchange or otherwise dispose of real and personal property of every kind and description, including shares of stock, subscriptions, bonds and other securities or obligations. The registered address of the Parent Company is 4th Floor, SGV II Building, 6758 Ayala Avenue, Makati City. The Parent Company has an average of 42 employees as of December 31, 2001 and 2000.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of the Parent Company are as follows:

General
The accompanying financial statements are prepared in accordance with the generally accepted accounting principles in the Philippines.

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost convention.

Adoption of New Standards
The Parent Company adopted the following Statements of Financial Accounting Standards (SFAS), which were revised in 2000 and took effect on January 1, 2001:

- SFAS No. 1: Presentation of Financial Statements
- SFAS No. 22: Cash Flow Statements

The following changes in presentation and classification have been introduced in accordance with requirements of these new standards:

- The comparative figures for 2000 have been restated following new presentation rules; and
- Prior year financial statements were restated to follow the prescribed format.

Changes made pertain principally to the presentation of the income.

Cash Equivalents
All highly liquid investments purchased with maturities of three months or less from the dates of placements are considered to be cash equivalents.

Investments in Shares of Stock
The investments in shares of stock wherein the Parent Company owns at least 20% of the outstanding capital stock of the investee company are carried at cost adjusted for its equity in net earnings or losses and dividends received since dates of acquisition. Equity in net earnings or losses is adjusted for the straight-line amortization of the difference between the Parent Company's cost of such investment and its proportionate share in the underlying net assets of the investee companies at the dates of acquisition.

Other investments in shares of stock are carried at cost.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful life of the asset or the term of the lease, whichever is shorter. Respective estimated useful lives of the assets follow:

Building and building improvements	25 years
Office furniture, fixtures, and equipment	3 – 5 years
Leasehold improvements	5 years
Transportation equipment	5 years

The cost of minor repairs and maintenance are charged to income as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to income for the year.

Income Taxes

Deferred tax assets and liabilities are recognized for the following: (a) future tax consequences attributable to differences between the financial reporting bases of resources and liabilities and their related tax bases, (b) the carryforward benefits of the minimum corporate income tax (MCIT) over regular corporate income tax, and (c) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the year in which: (a) those temporary differences are expected to be recovered or settled, and (b) the carryforward benefits of MCIT and NOLCO are expected to be applied. The effect on the deferred tax assets and liabilities arising from any change in the applicable income tax rates is included in the provision for deferred income tax for the year.

A valuation allowance will be provided for the portion of deferred tax assets which is not expected to be realized in the future. Any change in the valuation allowance on deferred tax assets is also included in the computation of the provision for deferred income tax for the year.

Foreign Currency Transactions and Translations

Foreign currency transactions are recorded at prevailing exchange rate at the time of the transactions. Foreign currency denominated assets and liabilities are translated using the prevailing exchange rate at balance sheet date. Exchange gains or losses arising from foreign currency denominated transactions and translations are credited or charged to income for the year.

Retirement Cost

The Parent Company's retirement cost is determined using the accrued benefit actuarial cost method. This method reflects services rendered by employees to the date of valuation and incorporate assumptions concerning employees' projected salaries. Unrecognized experience adjustments and past service costs are amortized over the expected remaining working lives of the employees.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2001	2000
Cash on hand and with banks	**₱26,379,397**	₱13,155,932
Short-term cash investments	**14,431,934**	12,539,456
	₱40,811,331	₱25,695,388

4. Receivables

This account consists of:

	2001	2000
Management fees receivable	**₱3,194,447**	₱15,396,259
Dividends receivable	**906,157**	12,140,205
Advances to officers and employees	**786,926**	588,075
Others	**2,166,993**	2,394,344
	₱7,054,523	₱30,518,883

5. Noncurrent Receivables

This account represents outstanding trade receivables from certain airline customers of Miascor Groundhandling Corporation, a subsidiary of Miascor Holdings, Inc., amounting to ₱38,296,543, which were assigned to the Parent Company, less allowance for doubtful accounts of ₱18,518,983.

6. Investments and Advances

Investments and advances consist of:

	2001	2000
Investments in shares of stock:		
At equity		
Acquisition cost	**₱178,318,500**	₱498,679,440
Accumulated equity in net losses:		
Balance at beginning of year	**(164,864,117)**	(147,024,482)
Equity in net losses during the year (including amortization of goodwill amounting to ₱77,082 in 2001 and 2000)	**599,607**	(1,964,320)
Cash dividends received	[illegible]	(10,434,048)

(Forward)

	2001	2000
Disposal during the year	81,590,260	(5,441,267)
Balance at end of year	(82,674,250)	(164,864,117)
	95,644,250	333,815,323
At cost	33,550,000	33,050,000
	129,194,250	366,865,323
Advances to affiliated companies (see Note 9)	1,259,628,429	980,382,171
	₱1,388,822,679	₱1,347,247,494

Investments in shares of stock (with related subscriptions payable) of affiliated companies which are accounted for under the equity method are as follows:

	Effective Percentage of Ownership		Acquisition Cost		Subscriptions Payable	
	2001	2000	2001	2000	2001	2000
Isla Realty Corporation	100.0	100.0	₱30,586,000	₱30,586,000	₱3,200,000	₱3,200,000
Security Holdings, Inc.*	100.0	100.0	30,000,000	30,000,000	22,500,000	22,500,000
Citadel Foods Corporation**	100.0	100.0	24,000,000	24,000,000	–	–
Citco Shipping Service, Inc.*	100.0	100.0	18,000,000	18,000,000	9,450,000	9,450,000
Pacific Multi-Media Corporation*	100.0	100.0	12,500,000	12,500,000	9,375,000	9,375,000
Pacific Telephone Co., Inc.*	100.0	100.0	12,500,000	12,500,000	9,375,000	9,375,000
Inter Asia Airlines, Inc.*	50.0	50.0	12,500,000	12,500,000	9,375,000	9,375,000
FWIG Moving & Storage, Inc.*	100.0	–	10,000,000	–	–	–
Isla Finance Corporation	100.0	100.0	10,000,000	10,000,000	–	–
Karilagan International Travel and Tours Corporation (KITTCO)	85.1	85.1	4,214,500	1,350,000	–	–
Outsource Advantage Corp. (formerly Opportunities Unlimited, Inc.)	100.0	100.0	3,000,000	1,000,000	–	–
Port Checkers Corporation	100.0	100.0	1,718,000	1,718,000	–	–
Telephony Specialists, Inc.	60.0	60.0	1,500,000	1,500,000	–	–
Alps Haven Realty, Inc.*	100.0	100.0	1,250,000	1,250,000	250,000	250,000
Cape Santiago Estates Corp.*	100.0	100.0	1,250,000	1,250,000	250,000	250,000
Caravan Estates & Development Corp.*	100.0	100.0	1,250,000	1,250,000	250,000	250,000
Liberty International Trade Association, Inc.*	100.0	100.0	1,250,000	1,250,000	937,500	937,500
Sapphire Land Development Corp.*	100.0	100.0	1,250,000	1,250,000	250,000	250,000
Yellow Rock Realty Group Corp.*	100.0	100.0	1,250,000	1,250,000	250,000	250,000
Victoria Star, Inc.*	100.0	100.0	300,000	300,000	–	–
Miascor Holdings, Inc.	–	100.0	–	295,467,600	–	–
Asia Overnight Express Corporation*	–	60.0	–	15,000,000	–	11,250,000
Asian Aviation International Group, Inc.*	–	100.0	–	12,500,000		9,375,000
Trans Pacific Air Service Corporation	–	100.0	–	6,000,000		
Exel Philippines, Inc. (formerly MSAS Global Logistics Corporation) (EPI)	–	35.0	–	4,007,840		

(Forward)

	Effective Percentage of Ownership		Acquisition Cost		Subscriptions Payable	
	2001	2000	2001	2000	2001	2000
Citrade International, Inc.*	–	100.0	–	1,250,000	–	937,500
Air Cargo Partners Corporation***	–	100.0	–	1,000,000	–	–
			₱178,318,500	₱498,679,440	₱65,462,500	₱87,025,000

* Still in the preoperating stage as of December 31, 2001 and 2000.
** Ceased commercial operations in 1997.
*** Started commercial operations on January 1, 2000.

Effective January 1, 2000, the Parent Company became the minority stockholder of EPI as a result of the purchase by Exel Plc., a foreign company, of 33,868 shares held by the Company which is equivalent to 25% of EPI's outstanding capital stock.

Under a deed of assignment dated July 6, 2001, the Parent Company assigned to a local company all of its investments in shares of stock, deposits for future subscriptions in shares of stocks, and the related unpaid subscriptions, if any, of the following companies:

1. Air Cargo Partners Corporation
2. Asian Aviation International Group, Inc.
3. Citrade International, Inc.
4. Exel Philippines, Inc.
5. Miascor Holdings, Inc.
6. Trans Pacific Air Service Corporation

The effects of the above disposal of investments in shares of stock are reflected in the proper accounts in the Parent Company financial statements.

Advances to affiliated companies principally consist of deposits for future subscriptions in shares of stock of certain subsidiaries totaling ₱22.5 million as of December 31, 2001 and ₱489.4 million as of December 31, 2000 and certain interest-bearing and noninterest-bearing advances to certain subsidiaries amounting to ₱44.1 million and ₱62.0 million as of December 31, 2001 and 2000, respectively.

7. Property and Equipment

Property and equipment consist of:

	2001	2000
Land	**₱4,468,400**	₱4,468,400
Building and building improvements	**25,481,235**	25,481,235
Office furniture, fixtures, and equipment	**11,557,930**	11,092,425
Leasehold improvements	**9,577,007**	9,577,007
Transportation equipment	**3,117,868**	3,452,868
	54,202,440	54,071,935
Less accumulated depreciation and amortization	**23,139,349**	17,413,459
	₱31,063,091	₱36,658,476

8. Other Assets

This account consists of:

	2001	2000
Software license, hardware and related cost	**₱5,417,236**	₱7,539,041
Input VAT and creditable withholding tax	**7,045,361**	4,965,489
Miscellaneous deposits and others	**1,117,164**	1,210,358
	₱13,579,761	₱13,714,888

Under a "R/3 Software Individual End-User License Agreement" dated December 8, 1998 between the Parent Company, SAP Aktiengesellschaft (SAP), a foreign company, and SAP Philippines, Inc. (SAP Philippines), a local Company, SAP granted the Parent Company a license for the use of the SAP proprietary R/3 Software, Documentation, other SAP Proprietary Information and Third-party Database. In consideration thereof, the Parent Company shall pay SAP a specified amount of license fee calculated based on the total number of users and software licensed. The Parent Company shall also pay an annual maintenance fee to SAP Philippines.

9. Related Party Transactions

Significant transactions with related parties include the following:

a. The Parent Company has existing management contracts for the general management of the business operations of certain affiliated companies. Under the terms of the contracts, the Parent Company receives as management fee an amount equivalent to 10% of the annual operating profit of the affiliated companies. The contracts are for a period of five (5) years.

b. In the normal course of business, the Parent Company has transactions with affiliated companies consisting principally of interest-bearing and noninterest-bearing cash advances and various intercompany charges.

c. On October 4, 1999, the Parent Company took up the assets and assumed the liabilities of KITTCO as of September 30, 1999 amounting to ₱4.9 million and ₱7.8 million, respectively, pursuant to the latter's capital restructuring and quasi-reorganization to be undertaken before the Securities and Exchange Commission. The resulting net advance to or receivable from KITTCO amounting to ₱2.9 million was converted to equity.

10. Lease Commitment

The Parent Company has a contract of lease with a local company for the space it occupies as its main office. The lease is for a period of three (3) years up to June 30, 2000 at an annual rental of about ₱2.8 million. The lease was renewed thereafter for another three (3) years or until June 30, 2003 with an annual rent of about ₱3 million.

11. Retirement Cost

The Parent Company has a future noncontributory and defined retirement plan covering all of its officers and regular employees. The plan provides for retirement benefits based on the years of service and percentage of final monthly basic salary. As of July 1, 1996, the latest actuarial valuation, the unfunded actuarial accrued liability amounted to ₱2.7 million. The principal actuarial assumptions used to determine retirement benefits were an annual investment rate and salary increases of 10% per annum, both compounded annually.

Total retirement expense amounted to ₱0.8 million in 2001 and 2000.

12. Income taxes

Components of the net deferred tax asset (liability) follow:

	2001	2000
Deferred tax assets (liability) on:		
NOLCO	**₱156,944,880**	₱144,115,630
Allowance for doubtful accounts	**5,926,075**	5,926,075
Accrued retirement expense	**2,190,967**	1,915,082
Unrealized foreign exchange gain	**(10,308,844)**	(7,550,594)
	154,753,078	144,406,193
Less: Valuation allowance	**(156,944,880)**	(144,115,630)
	(₱2,191,802)	₱290,563

The current provision for income tax represents the capital gains tax on the sale of certain investments in shares of stocks (see Note 6) amounting to ₱516,553 in 2001 and ₱654,466 in 2000, and final tax on interest income withheld at source amounting to ₱214,957 and ₱255,901 in 2001 and 2000, respectively.

Under existing tax regulations, the corporate income tax rate applicable in 2000 and onwards is 32%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. The regulation also provides for MCIT of 2% of gross income, as defined, and introduced a three-year NOLCO.

13. Others

On January 28, 2002, the Securities and Exchange Commission approved the Parent Company's application for a change in its corporate name from Citadel Holdings, Inc. to Prospector Investment Holdings Corp.

EXHIBIT D

20030730-54

GIS Form 2001

2003 JUN 30 PM

GENERAL INFORMATION SHEET
STOCK CORPORATION

GENERAL INSTRUCTIONS ON THE USE OF THIS GENERAL INFORMATION SHEET (GIS)

1 THIS GIS IS TO BE SUBMITTED WITHIN THIRTY (30) CALENDAR DAYS FOLLOWING THE DATE OF THE ANNUAL MEMBERS MEETING. DO NOT LEAVE ANY ITEM BLANK. WRITE N.A. IF INFORMATION REQUIRED IS NOT APPLICABLE TO THE CORPORATION.

2 IF NO MEETING WAS HELD, THE CORPORATION SHALL SUBMIT THE GIS TOGETHER WITH AN AFFIDAVIT OF NON-HOLDING OF MEETING WITHIN THIRTY (30) CALENDAR DAYS FROM THE DATE OF THE SCHEDULED ANNUAL/SPECIAL MEETING (AS PROVIDED IN THE BY-LAWS).

3 THIS GIS SHOULD BE CERTIFIED AND SWORN TO BY THE CORPORATE SECRETARY, OR BY THE PRESIDENT OR ANY DULY AUTHORIZED OFFICER OF THE CORPORATION.

4 **SUBMIT SIX (6) COPIES TO THE CENTRAL RECEIVING SECTION, GROUND FLOOR, SEC BLDG., EDSA, MANDALUYONG CITY. THE ORIGINAL AND ALL CONFORMED COPIES UNIFORMLY SHOULD BE ON A4 OR LETTER-SIZED PAPER UNDER A STANDARD COVER PAGE. THE ORIGINAL AND ALL CONFORMED PAGES SHALL UTILIZE ONLY ONE SIDE. COMPANIES SUBMITTING A COPY ON A DISKETTE NEED ONLY TO SUBMIT FOUR (4) PAPER COPIES.**

5 ALL FILINGS MUST BE WRITTEN IN THE ENGLISH LANGUAGE.

6 ONLY THE GIS ACCOMPLISHED IN ACCORDANCE WITH THE HEREIN INSTRUCTIONS SHALL BE CONSIDERED AS HAVING BEEN FILED/SUBMITTED.

ACTUAL DATE OF ANNUAL/SPECIAL MEETING: May. 31, 2003

=============================== **PLEASE PRINT LEGIBLY** ===============================

REG. NO:	DATE OF ANNUAL MEETING PER BY-LAWS:	FISCAL YEAR END:
A200100631	Any day in May	December 31

CORPORATE NAME:
CITADEL HOLDINGS, INC. (formerly Asia Marine Holdings Corporation)

ADDRESS/PRINCIPAL OFFICE BASED ON THE LATEST ARTICLES OF INCORPORATION:	DATE REGISTERED:
Metro Manila	Jan. 26, 2001
PRESENT ADDRESS: 4th Floor SGV II Bldg, 6758 Ayala Avenue, Makati City	AREA CODE:

TELEPHONE NO.:	FAX NO.:	CORPORATE T.I.N.
812-77-11 841-0716	812-77-19	209-461-788-000

PRIMARY PURPOSE/ACTIVITY PRESENTLY ENGAGED IN:	INDUSTRY CLASSIFICATION:
To invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer or otherwise dispose of real and personal property of every kind and description.	Holding Company INDUSTRY CODE:

PARENT COMPANY REG. NO.	COMPANY NAME AND ADDRESS
A200113382	Atlantis Pacific Holdings, Inc. 4th Floor SGV II Building, 6758 Ayala Avenue, Makati City
SUBSIDIARY/AFFILIATE REG. NO.	**COMPANY NAME AND ADDRESS**
A199713755	Air Cargo Partners Corporation Miascor Cargo Center, Ninoy Aquino Avenue, Sto. Nino, Paranaque City
47921	Citadel Shipping Service, Inc. Ground Floor Citadel Building, 637 Bonifacio Drive, Port Area, Manila
A199806495	Citadel Logistics, Inc. 6th Floor Delgado Building, 637 Bonifacio Drive, Port Area, Manila
A199612023	Miascor Holdings, Inc. Miascor Cargo Center, Ninoy Aquino Avenue, Sto. Nino, Paranaque City
154304	Trans Pacific Air Service Corporation Ground Floor SGV I Building, 6760 Ayala Avenue, Makati City

TOTAL NO. OF EMPLOYEES	TOTAL NO. OF MANAGERS/OFFICERS	TOTAL ANNUAL COMPENSATION OF DIRECTORS DURING THE PRECEDING FISCAL YEAR	WITH SEC/OTHER GOV'T AGENCY SECONDARY LICENSE? Y/N N REG. NO.:
55	20	P	

NOTE: SHADED BOXES ARE FOR SEC PERSONNEL. USE ADDITIONAL SHEET IF NECESSARY.

GENERAL INFORMATION SHEET

(STOCK CORPORATION)

PLEASE PRINT LEGIBLY

FINANCIAL PROFILE

AUTHORIZED CAPITAL

		TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
		Common		100,000	100.000	10,000,000.00
		TOTAL	P	100,000	TOTAL P	10,000,000.00

SUBSCRIBED CAPITAL

FILIPINO	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
	6	Common		30,000	100.000	3,000,000.00
		TOTAL	P	30000	TOTAL P	3,000,000.00

FOREIGN (NATIONALITY)	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
N/A						
		TOTAL	P		TOTAL P	
					TOTAL SUBSCRIBED P	3,000,000.00

PAID-UP CAPITAL

FILIPINO	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
	6	Common		30,000	100.000	2,500,000.00
		TOTAL	P	30000	TOTAL P	2,500,000.00

FOREIGN (NATIONALITY)	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
N/A						
		TOTAL	P		TOTAL P	
					TOTAL PAID-UP P	2,500,000.00

[illegible] NOTE: USE ADDITIONAL SHEET/ANNEX 2A IF NECESSARY (USE 2A/N) | N

GENERAL INFORMATION SHEET

(STOCK CORPORATION)

PLEASE PRINT LEGIBLY

FINANCIAL PROFILE

		TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
AUTHORIZED CAPITAL						
		TOTAL	P		TOTAL P	
SUBSCRIBED CAPITAL						
FILIPINO	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
		TOTAL	P	30000	TOTAL P	3,000,000.00
FOREIGN (NATIONALITY)	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
N/A						
		TOTAL	P		TOTAL P	
					TOTAL SUBSCRIBED P	3,000,000.00
PAID-UP CAPITAL						
FILIPINO	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
		TOTAL	P	30000	TOTAL P	2,500,000.00
FOREIGN (NATIONALITY)	NO. OF STOCKHOLDERS	TYPE OF SHARES	CODE	NUMBER OF SHARES/TYPE	PAR/STATED VALUE	AMOUNT (PhP)
N/A						
		TOTAL	P		TOTAL P	
					TOTAL PAID-UP P	2,500,000.00

GENERAL INFORMATION SHEET

(STOCK CORPORATION)

PLEASE PRINT LEGIBLY

DIRECTORS / OFFICERS

NAME AND ADDRESS (RESIDENCE)	INC'R	BOARD	STOCK HLDR.	OFFICER	T.I.N. or Passport No. / NATIONALITY
Ricardo C. Delgado 520 Buendia Avenue Ext. North Forbes Park, Makati City	N	C	Y	Chairman/ President	101-361-075 Filipino
Jovino G. Lorenzo Jr. #24 Bethlehem Street, Multinational Village, Paranaque City	N	M	Y	Vice-Chairman	101-361-139 Filipino
Ramon S. Monzon #7 Ideal Street, Mandaluyong City	N	M	Y	EVP/COO/ CFO	102-053-937 Filipino
Jose Ricardo P.R. Delgado 520 Buendia Avenue Ext. North Forbes Park, Makati City	N	M	Y	Chief Investment Officer	168-537-919 Filipino
Rogelio L. Singson #12 San Geronimo Street, Magallanes Village, Makati City	N	M	Y	SVP-Project Dev.	133-836-296 Filipino
Fe D. Vicencio Block 1, Lot 7 Greenvale Homes II, Hemlock St., Marcelo Green Village, Paranaque City	N		N	VP-Legal & Group Controller	101-361-197 Filipino
Henry D. Castro B4 L8 Ecotrend V, Bacoor, cavite	N		N	Corporate Secretary	178-827-249 Filipino
Fernando V. Detaunan #4 Courier Street, Village East, Executive Homes, F.P. Felix Avenue, Cainta, Rizal	N		N	Group Controller	171-519-285 Filipino
Jaime V. Lapus #40 Morning Star Dr., Sanville Subd., Quezon City	N		N	AVP for Bus.Dev.	183-181-321 Filipino
Mylene L. Evangelista #807 Main Street,V & G Subd, Consolacion, Cebu	N		N	AVP for Visayas & Mindanao.	131-900-895 Filipino

INSTRUCTIONS:

FOR BOARD COLUMN, PUT "C" FOR CHAIRMAN, "M" FOR MEMBER.
FOR INC'R COLUMN, PUT "Y" IF AN INCORPORATOR, "N" IF NOT.
FOR STOCKHOLDER COLUMN, PUT "Y" IF A STOCKHOLDER, "N" IF NOT.
FOR OFFICER COLUMN, INDICATE PARTICULAR POSITION IF AN OFFICER, "N/A" IF NOT.

GENERAL INFORMATION SHEET

(STOCK CORPORATION)

PLEASE PRINT LEGIBLY

CORPORATE NAME:

ASIA MARINE HOLDINGS CORPORATION

STOCKHOLDERS:

NAME, NATIONALITY AND ADDRESS	SHARES SUBSCRIBED			AMOUNT PAID (PhP)	T.I.N or Passport No.
	TYPE/CLASS	NUMBER	AMOUNT (PhP)		
Atlantis Pacific Holdings, Inc.	Common	29,995	2,999,500.00	2,499,500.00	213-722-157
Filipino					
4th Floor SGV II Building, 6758 Ayala Avenue, Makati City					
	TOTAL	**29995**	**2,999,500.00**		
Ricardo C. Delgado	Common	1	100.00	100.00	101-361-075
Filipino					
520 Buendia Avenue Extension, North Forbes Park, Makati City					
	TOTAL	**1**	**100.00**		
Jovino G. Lorenzo Jr.	Common	1	100.00	100.00	101-361-139
Filipino					
#24 Bethlehem Street, Multinational Village, Paranaque City					
	TOTAL	**1**	**100.00**		
Ramon S Monzon	Common	1	100.00	100.00	102-053-937
Filipino					
#7 Ideal Street, Mandaluyong City					
	TOTAL	**1**	**100.00**		
Jose Ricardo P.R Delgado	Common	1	100.00	100.00	168-537-919
Filipino					
520 Buendia Avenue Extension, North Forbes Park, Makati City					
	TOTAL	**1**	**100.00**		
Rogelio L. Singson	Common	1	100.00	100.00	133-836-296
Filipino					
#12 Geronimo St., Magallanes Village, Makati City					
	TOTAL	**1**	**100.00**		
	TOTAL				
	TOTAL				
			TOTAL P	**2,500,000.00**	

INSTRUCTIONS: INDICATE THE TOP [illegible] STOCKHOLDERS. IF MORE THAN [illegible], INDICATE THE REST AS OTHERS

GENERAL INFORMATION SHEET

(STOCK CORPORATION)

PLEASE PRINT LEGIBLY

CORPORATE NAME:

ASIA MARINE HOLDINGS CORPORATION

STOCKHOLDERS:

NAME, NATIONALITY AND ADDRESS	SHARES SUBSCRIBED			AMOUNT PAID (PhP)	T.I.N or Passport No.
	TYPE/CLASS	NUMBER	AMOUNT (PhP)		
	TOTAL				
	TOTAL				
	TOTAL				
	TOTAL				
	TOTAL				
	TOTAL				
	TOTAL				
			TOTAL P	2,500,000.00	

INSTRUCTIONS: INDICATE THE TOP 14 STOCKHOLDERS. IF MORE THAN 14, INDICATE THE REST AS OTHERS.

GENERAL INFORMATION SHEET

(STOCK CORPORATION)

PLEASE PRINT LEGIBLY

A. FORMS OF INVESTMENTS OF CORPORATE FUNDS IN ANOTHER CORPORATION	AMOUNT (PhP)	DATE OF BOARD RESOLUTION	DATE OF MEMBERS RATIFICATION
STOCKS	920,034,152.00		
BONDS/COMMERCIAL PAPER	NONE		
LOANS/ CREDITS/ ADVANCES	NONE		
GOVERNMENT TREASURY BILLS	NONE		
OTHERS	NONE		
B. INVESTMENT OF CORPORATE FUNDS IN ANY OF ITS SECONDARY PURPOSES		DATE OF BOARD RESOLUTION	DATE OF MEMBERS RATIFICATION
NATURE OF SECONDARY PURPOSE NONE		N/A	N/A
C. TREASURY SHARES		NO. OF SHARES	ACQUISITION COST
		N/A	N/A
D. UNRESTRICTED RETAINED EARNINGS AS OF END OF LAST FISCAL YEAR (unaudited)			10,501,392.00

E. DIVIDENDS DECLARED DURING THE IMMEDIATELY PRECEDING YEAR:

TYPE OF DIVIDENDS	AMOUNT (PhP)
CASH DIVIDEND	NONE
STOCK DIVIDEND	NONE
PROPERTY DIVIDEND	NONE
TOTAL P	

I, HENRY D. CASTRO (NAME), Corporate Secretary (POSITION) OF THE ABOVE-MENTIONED CORPORATION, DO SOLEMNLY SWEAR AND CERTIFY THAT ALL THE MATTERS SET FORTH IN THIS GENERAL INFORMATION SHEET COMPOSED OF 3 PAGES ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND THAT THIS CORPORATION HAS COMPLIED WITH ALL THE REPORTORIAL REQUIREMENTS PROVIDED UNDER THE CORPORATION CODE OF THE PHILIPPINES.

DONE THIS 27th DAY OF June, 20 03 IN Makati City.

(SIGNATURE)

JUN 30 2003

SUBSCRIBED AND SWORN TO BEFORE ME THIS ______ DAY OF ______, 20 __ AFFIANT EXHIBITING TO ME HIS/HER COMMUNITY TAX CERTIFICATE NO. 14474824 ISSUED ON March 21, 2003 IN Makati City

DOC. NO. 744 :
PAGE NO. __ :
BOOK NO. 73 :
SERIES OF 03 :

NOTARY PUBLIC JOEL G. GORDOLA
UNTIL DECEMBER 31, 20 Notary Public
PTR #
ISSUED AT Until December 31, 2003
IBP PTR No. 37207247, 1-02-03, Q.C.

NOTE: This **General Information Sheet (GIS)** may be used as **prima facie** evidence against the corporation for any violation of the Securities Regulation Code, the Corporation Code of the Philippines and other special laws, as well as the rules and regulations of the Securities and Exchange Commission.