Corporate Governance and Financial Review

contents

Corporate Governance

GOVERNANCE FRAMEWORK

The Company is committed to a policy of transparency and full disclosure in its business operations and relationships with its shareholders and regulators. It has complied throughout the year with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") issued by The Stock Exchange of Hong Kong Limited.

The Board meets formally at least four times a year. The Executive Directors are responsible for the day-to-day management of the Company's operations. In addition, there are regular meetings with the senior management of the Company's subsidiary and associated companies, at which Group strategies and policies are formulated and communicated.

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

- Regular board meetings focusing on business strategy, operational issues and financial performance.

- Active participation on the Boards of subsidiary and associated companies.

- Approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities.

- Monitoring the compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

- Monitoring the quality, timeliness, relevance and reliability of internal and external reporting.

To enable the Company's Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

The Company's Audit Committee is composed of two independent Non-executive Directors and written terms of reference which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The Audit Committee reports directly to the Board of Directors and reviews matters within the purview of audit, such as Financial Statements and internal controls, to protect the interests of the Company's shareholders. The Audit Committee meets regularly with the Company's external auditors to discuss the audit process and accounting issues, and review the effectiveness of internal controls and risk evaluation.

The Company's governance framework is applied as appropriate throughout the Group.

INTERNAL FINANCIAL CONTROL

The Directors are required to prepare for each financial year Financial Statements which give a true and fair view of the state of affairs of the Company and of the Group at the end of the year, and of the profit and cash flows for the year to that date.

The Company's management has prepared the Financial Statements and related notes on pages 59 to 93 in conformity with the disclosure requirements of the Hong Kong Companies Ordinance, disclosure provisions of the Listing Rules and accounting principles generally accepted in Hong Kong. These Financial Statements include amounts that are based on management's best estimates and judgments. The financial information appearing throughout the 2000 Annual Report is consistent with that in the Financial Statements.

The financial control systems implemented by the management of the Company are designed to provide reasonable assurance that assets are safeguarded and transactions are recorded to permit the preparation of appropriate financial information. The systems in use provide such assurance, supported by the careful selection and training of qualified personnel, the establishment of organizational structures providing an appropriate and well defined division of responsibilities, and the communication of policies and standards of business conduct throughout the Group.

COMMUNICATIONS WITH SHAREHOLDERS

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

The formal channels of communication with shareholders are principally through the Annual Report and the Annual General Meeting (AGM). The Annual Report seeks to communicate, both to shareholders and the wider investment community, developments in the Company's businesses over the previous financial year. In addition, strategic goals for the coming year are set and management's performance against predetermined objectives are reported and assessed. All of these initiatives are designed to better inform shareholders and potential investors about the Company's activities and strategic direction.

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

DIRECTORS' REMUNERATION

The remuneration of Executive Directors is determined annually by the Executive Chairman and certain Non-executive directors who are advised by compensation and benefits consultants. The Executive Chairman's remuneration is subject to review by Non-executive Directors representing the major shareholder. Non-executive Directors' fees and emoluments are determined annually by the Executive Chairman.

Executive Directors' entitlement to share options and option exercise prices are determined by a Special Compensation Committee of the Board.

Details of Directors' remuneration for the year are set out in Note 31(A) to the Financial Statements.

Financial Review

SHAREHOLDER VALUE

INVESTMENT PHILOSOPHY

First Pacific is a long-term investor in leading Asian blue chip companies which command a dominant market position in their respective industries. Over the past three years, the Company has implemented this philosophy through the divestment of certain mature businesses and the reinvestment of the proceeds in Asian operations which have greater growth potential.

First Pacific's principal investment objective is to provide shareholders with attractive long-term returns. Despite the obvious political and economic difficulties encountered during 2000 in the countries in which the Company has its major investments, management remains confident of long-term value creation. The steep declines in the equity markets of Indonesia, the Philippines and Thailand during 2000 has inevitably had a negative impact on the Company's underlying net asset value, and a consequent impact on its share price.

Accordingly, the return to shareholders during 2000 has been very disappointing, particularly in the context of the Company's past record. Nevertheless, First Pacific has invested in excellent companies which continue to prosper operationally even in the current challenging circumstances. Management remains focused on improving the operating capabilities of the Group's businesses to ensure that they are well positioned to take advantage of opportunities which will arise once economic and political conditions improve.

EARNINGS

Recurrent profitability before exchange differences, a traditional gauge of progress in generating returns for shareholders, rose 23.2 per cent to US$51.0 million, reflecting the impact of net acquisitions and the improved operating performance of certain Group companies. On a per-share basis, the Group recorded recurrent earnings of U.S. 1.74 cents (HK 13.57 cents) per share, an improvement of 8.8 per cent from 1999. This reflects a stronger profit performance and an expanded equity base due to the issue of shares during the year to fund the acquisition of a further 8.0 per cent interest in Indofood.

The Group's profitability has, in part, been constrained as a result of value creating measures taken at certain operating companies, the benefit of which has not been reflected in 2000. For example, in late 1999 Smart took a strategic decision to compete aggressively in the Philippine GSM cellular market which resulted in significant marketing costs being incurred in the first half of 2000. The return on Smart's investment in the GSM market will be reflected in PLDT's future earnings as a result of its substantial share of this growing market.

SHAREHOLDERS' EQUITY

Shareholders' equity at 31 December 2000 amounted to US$365.5 million compared to US$591.5 million at 31 December 1999, a decrease of 38.2 per cent. On a per-share basis, shareholders' equity in 2000 fell to U.S. 11.6 cents from U.S. 20.3 cents in 1999, primarily due to an adverse exchange reserve movement (US$163.2 million) and the write-off of goodwill principally on the acquisition of additional interests in PLDT and Indofood (US$169.8 million).

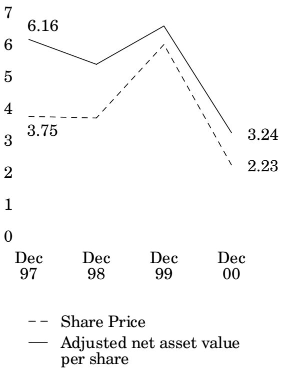
ADJUSTED NET ASSET VALUE AND INVESTED CAPITAL

The underlying worth of the Group can also be assessed by computing the adjusted net asset value of each separate business as determined by its quoted share price or, in cases where a company is not listed, its book carrying cost.

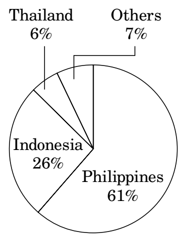
Using this approach, First Pacific's adjusted net asset value, on a per-share basis, on 31 December 2000 stood at US$0.42 or HK$3.24. Our closing share price on that day was HK$2.23, a discount of 31.3 per cent compared to the adjusted net asset value. Calculated on a pro forma basis at 5 March 2001, the Group's share price of HK$2.20 represented a discount of 33.5 per cent compared to the adjusted net asset value.

The following table summarizes the Company's adjusted net asset value, calculated at 31 December 2000 and on a pro forma basis at 5 March 2001, together with the Company's invested capital at 31 December 2000.

Share Price vs. Adjusted Net Asset Value Per Share
HK$



Adjusted Net Asset Value by Country – 31 December 2000



	US$millions
Philippines	898.0
Indonesia	380.4
Thailand	80.6
Others	102.9
Total	1,461.9

ADJUSTED NET ASSET VALUE PER SHARE

	Basis	Adjusted NAV 5 March 2001 US$m	**31 December 2000** Adjusted NAV US$m	**31 December 2000** Invested capital US$m
Consumer				
Indofood	(i)	402.3	**353.1**	706.6
Berli Jucker	(i)	74.1	**80.6**	164.2
Darya-Varia	(i)	24.7	**27.3**	52.4
Telecommunications				
PLDT	(i)	691.1	**717.9**	1,247.8
Escotel	(ii)	63.0	**63.0**	63.0
Property				
Metro Pacific	(i)	186.3	**180.1**	648.8
Savills	(i)	49.2	**39.9**	34.1
Head Office				
– Net indebtedness		(150.0)	**(150.0)**	(150.0)
– Other liabilities		(8.6)	**(8.6)**	(8.6)
Total Valuation	(iii)	1,332.1	**1,303.3**	2,758.3
Number of Ordinary Shares in Issue (millions)		3,139.8	**3,139.8**	3,139.8
Value per share				
– U.S. dollar		0.42	**0.42**	0.88
– HK dollars		3.31	**3.24**	6.85
Company's closing share price (HK$)		2.20	**2.23**	2.23
Share price discount to HK$ value per share (%)		33.5	**31.3**	67.5

(i) Based on quoted share prices applied to the Company's economic interest.
(ii) Based on investment cost less provisions.
(iii) No value has been attributed to the Group's telecom investment in Indonesia or other sundry investments.

The above table shows that First Pacific is currently trading at a discount of approximately 30 per cent to the Company's underlying net asset value ("NAV"). In addition, the total current market value of its investments is over 50 per cent below acquisition cost.

As an investment holding company, First Pacific has historically traded at a discount to NAV. However, due to the increased risk premium assigned to Southeast Asian equities in 2000, the discount to NAV has increased significantly from 8.8 per cent at 31 December 1999 to 33.5 per cent at 5 March 2001. First Pacific management will continue to adopt "value adding" initiatives to narrow the discount to NAV through:

- Active involvement in the strategy and management of operating companies.

- Development of pan-Asian e-commerce opportunities, encompassing both internal and external customers.

- Corporate finance activity at both the Group and operating level.

The market value of the Company's investments has been significantly impacted by adverse investor sentiment towards Southeast Asia during 2000. Macroeconomic and political factors created a high degree of uncertainty in Indonesia, the Philippines and Thailand which resulted in the equity markets of those countries falling substantially over the course of the year. As a consequence, the net asset value of the Company's Southeast Asian investments also declined, such that NAV is currently below the Company's cost of investment. However, as a long-term investor, First Pacific remains committed to value creation over the period of investment, consistent with the Company's past performance.

In addition, First Pacific's interest in its principal operating companies represents an effective "controlling" stake. Accordingly, the cost of investment includes a control premium, which is not reflected in the market price of quoted entities.

CASH RETURNS ON INVESTMENT

A measure of management's success in creating long-term value for shareholders is its ability to realize attractive cash returns from its long-term investments. In recent years, First Pacific has disposed of a number of investments and has consistently recorded superior returns over the period of its shareholding. Set out below is a summary of average annual cash returns realized on the disposal of major investments in recent years.

Investment	Year of disposal	Investment period (years)	Average annual cash return (%)
Pacific Link	1997	10	23
Hagemeyer	1998	15	24
Tuntex	1999	2	40
Guardforce	1999	6	19
China telecom ventures	2000	5	4
First Pacific Davies group	2000	15	9
First Pacific Bank	2000	14	15

LIQUIDITY AND RESOURCES

(A) COMPANY NET INDEBTEDNESS

Head Office borrowings as at 31 December 2000 were US$317.9 million compared to US$511.4 million in 1999. The only remaining Head Office debt is in respect of US$267.9 million convertible bonds repayable in March 2002 and a US$50.0 million convertible note, repayable in September 2006. Further details are set out in Note 20 to the Financial Statements.

Head Office cash increased by US$72.7 million during the year to US$167.9 million at 31 December 2000. This primarily reflects the disposal of First Pacific Bank in December 2000 for cash proceeds of US$232.3 million.

CHANGES IN HEAD OFFICE NET INDEBTEDNESS

	Borrowings US$m	Cash and bank US$m	Net indebtedness US$m
At 1 January 2000	511.4	(95.2)	416.2
Movement	(193.5)	(72.7)	(266.2)
At 31 December 2000	**317.9**	**(167.9)**	**150.0**

HEAD OFFICE CASH FLOW

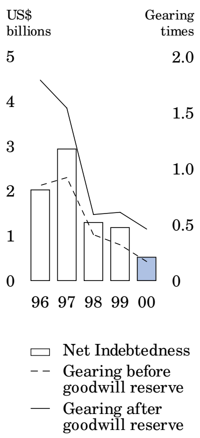
	2000 US$m	1999 US$m
Net cash inflow from operating activities	**29.4**	12.6
Net cash (outflow)/inflow from servicing of finance	**(4.5)**	5.5
Dividends paid to shareholders	**(8.9)**	(12.5)
Tax paid	**(14.6)**	–
Investments(i)	**(105.3)**	(518.6)
Proceeds on disposal(ii)	**370.1**	352.4
Financing activities		
– Net loan repayment	**(185.0)**	(15.0)
– Floating rate notes repayment	**(8.5)**	(11.0)
– Share placement and options	**–**	202.4
INCREASE IN CASH AND CASH EQUIVALENTS	**72.7**	15.8

(i) Investments in 2000 principally include the cash component for the acquisition of an 8.0 per cent interest in PLDT from Metro Pacific.
(ii) Proceeds on disposal in 2000 principally include the Group's entire interests in First Pacific Bank (US$232.3 million), China telecom ventures (US$81.8 million) and First Pacific Davies Limited (US$28.9 million).

(B) GROUP NET INDEBTEDNESS

An analysis of consolidated net indebtedness and gearing by operating company follows.

Net Indebtedness and Gearing



CONSOLIDATED NET INDEBTEDNESS AND GEARING

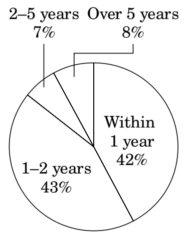
	Net indebtedness/ (cash) 2000 US$m	**Net assets 2000 US$m**	**Gearing 2000 times**	Net indebtedness/ (cash) 1999 US$m	Net assets 1999 US$m	Gearing 1999 times
Head Office(i)	**150.0**	**1,590.9**	**0.1**	416.2	1,570.8	0.3
Metro Pacific(ii)	**303.1**	**1,287.9**	**0.2**	423.5	1,494.6	0.3
Berli Jucker(iii)	**70.4**	**148.5**	**0.5**	29.9	218.3	0.1
Darya-Varia	**(1.6)**	**10.9**	**–**	(3.2)	13.9	–
Disposed companies	**–**	**–**	**–**	317.0	388.5	0.8
CONSOLIDATED BEFORE GOODWILL RESERVE	**521.9**	**3,038.2**	**0.2**	1,183.4	3,686.1	0.3
Goodwill reserve	**–**	**(1,913.9)**	**–**	–	(1,744.1)	–
CONSOLIDATED AFTER GOODWILL RESERVE	**521.9**	**1,124.3**	**0.5**	1,183.4	1,942.0	0.6

ASSOCIATED COMPANIES

	Net indebted-ness 2000 US$m	Net assets/ (liabilities) 2000 US$m	Gearing 2000 times	Net indebted-ness 1999 US$m	Net assets/ (liabilities) 1999 US$m	Gearing 1999 times
Indofood	**494.5**	**383.1**	**1.3**	536.2	420.4	1.3
PLDT (iv)	**3,730.3**	**1,746.1**	**2.1**	3,528.5	1,507.4	2.3
Escotel	**176.6**	**(46.0)**	**–**	151.1	(19.9)	–

(i) Head Office's gearing improved due to the reduction in borrowings following the disposal of First Pacific Bank and the strengthening of the capital base from the issue of US$61.1 million of shares as consideration for the acquisition of an additional 8.0 per cent interest in Indofood.
(ii) Metro Pacific's gearing improved marginally as a result of a US$120.4 million reduction in net indebtedness through asset disposals.
(iii) Berli Jucker's gearing increased principally as a consequence of raising debt finance during the year in order to return funds to shareholders.
(iv) PLDT's gearing improved to 2.1 times following the merger with Smart in March 2000 due to the cash injection from NTT as part of this transaction.

Maturity Profile of Consolidated Debt 2000

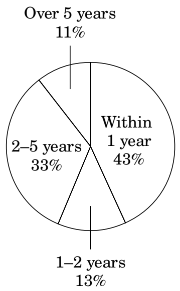


The maturity profile of consolidated debt is set out in Notes 20 and 24 to the Financial Statements and is summarized in percentage terms below. The principal change to the debt maturity profile during 2000 is the impact of US$267.9 million of convertible bonds at Head Office, which are due for repayment in March 2002.

MATURITY PROFILE OF CONSOLIDATED DEBT

	2000 %	1999 %
Within one year	**42.2**	43.2
One to two years	**43.4**	13.1
Two to five years	**6.5**	33.2
Over five years	**7.9**	10.5
TOTAL	**100.0**	100.0

Maturity Profile of Consolidated Debt 1999



The maturity profile of the borrowings of the Group's associated companies is as follows. The change to the debt maturity profile of Indofood reflects the repayment of some US$300 million of loans and issuance of a Rupiah 1 trillion five-year bond in 2000.

	Indofood		PLDT		Escotel	
	2000 %	1999 %	2000 %	1999 %	2000 %	1999 %
Within one year	**30.1**	55.6	**8.7**	9.7	**51.5**	40.0
One to two years	**44.9**	16.5	**16.8**	5.6	**13.6**	12.9
Two to five years	**25.0**	27.9	**38.7**	34.7	**25.7**	36.7
Over five years	**–**	–	**35.8**	50.0	**9.2**	10.4
TOTAL	**100.0**	100.0	**100.0**	100.0	**100.0**	100.0

FINANCIAL RISK MANAGEMENT

FOREIGN CURRENCY RISK

(A) COMPANY RISK

First Pacific is exposed to foreign currency fluctuations arising from its portfolio of investments. As all Head Office debts were denominated in U.S. dollars at year-end 2000, this exposure relates mainly to the receipt of cash dividends, and to the translation of non-U.S. dollar investments in subsidiary and associated companies. The Company actively reviews the potential benefits of hedging based on forecast dividend flows.

The Company does not actively seek to hedge risks arising from foreign currency translation of investments in subsidiary and associated companies due to their non-cash nature and the high cost associated with such hedging. Accordingly, First Pacific is exposed to the impact of foreign currency fluctuations on the U.S. dollar value of its investments. As all of the components of the Company's NAV (with the exception of Head Office amounts) relate to investments valued in local currencies, any depreciation of those currencies from their level at 31 December 2000 will have a negative impact on the NAV in U.S. dollar terms.

The following table illustrates the estimated impact on the Company's adjusted NAV for a 1.0 per cent depreciation against the U.S. dollar of the currencies in which the equities of subsidiary and associated companies are quoted.

Company	Effect on adjusted NAV US$m	Effect on adjusted NAV per share HK cents
PLDT	(7.2)	(1.79)
Indofood	(3.5)	(0.86)
Metro Pacific	(1.8)	(0.47)
Berli Jucker	(0.8)	(0.23)
Darya-Varia	(0.3)	(0.08)
TOTAL(i)	(13.6)	(3.43)

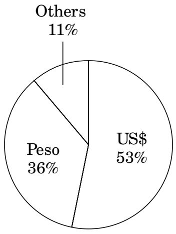
(i) The NAV of the Group's investment in Escotel is based on the historical U.S. dollar cost and accordingly any depreciation of the rupee would not affect the Company's adjusted NAV.

(B) GROUP RISK

First Pacific's policy is for each operating entity to borrow in local currencies where possible. However, it is often necessary for companies to borrow in U.S. dollars which results in a translation risk in their local currency results.

An analysis of consolidated net indebtedness by currency follows, together with the relevant details for the Group's associated companies.

Analysis of Total Borrowings by Currency



	US$millions
US$	400.1
Peso	267.3
Others	84.0
Total	751.4

ANALYSIS OF CONSOLIDATED NET INDEBTEDNESS

	US$ US$m	Peso US$m	Baht US$m	HK$ US$m	Rupiah US$m	Other(i) US$m	**Total** **US$m**
Total borrowings	400.1	267.3	20.5	–	0.1	63.4	**751.4**
Cash and bank balances	(94.9)	(31.1)	(12.7)	(89.1)	(1.7)	–	**(229.5)**
Net Indebtedness/ (Cash)	305.2	236.2	7.8	(89.1)	(1.6)	63.4	**521.9**
Representing							
Head Office	239.1	–	–	(89.1)	–	–	**150.0**
Metro Pacific	66.9	236.2	–	–	–	–	**303.1**
Berli Jucker	(0.8)	–	7.8	–	–	63.4	**70.4**
Darya-Varia	–	–	–	–	(1.6)	–	**(1.6)**
Net Indebtedness/ (Cash)	305.2	236.2	7.8	(89.1)	(1.6)	63.4	**521.9**

ASSOCIATED COMPANIES

	US$ US$m	Peso US$m	Baht US$m	HK$ US$m	Rupiah US$m	Other(i) US$m	**Total** **US$m**
Indofood	417.4	–	–	–	76.3	0.8	**494.5**
PLDT	3,468.0	82.7	–	–	–	179.6	**3,730.3**
Escotel	75.2	–	–	–	–	101.4	**176.6**

(i) For Berli Jucker and PLDT, "other" represents Japanese yen. For Escotel, "other" represents Indian rupee.

Details of Head Office net indebtedness are set out on page 43.

Metro Pacific has borrowings denominated in U.S. dollars since its property projects have been funded through international equity markets. Its remaining U.S. dollar debt primarily represents a convertible bond which is due for repayment in 2001. Going forward, Metro Pacific will seek funding in peso denominated borrowings where possible, while recognizing that long-term finance may be best secured through U.S. dollar equity-linked instruments.

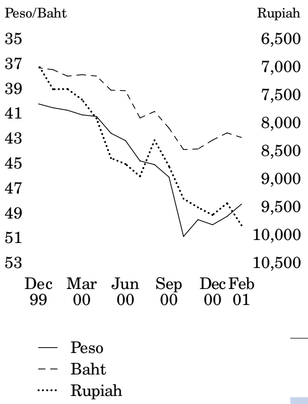
Berli Jucker's borrowings are primarily in Japanese yen. Berli Jucker has fully hedged its currency exposure into baht.

Indofood hedges its U.S. dollar debt through foreign currency swap agreements, revenue from exports and U.S. dollar deposits. In addition, US$253.0 million U.S. dollar denominated borrowings were repaid in July 2000 to further reduce its exposure to movements in the rupiah exchange rate. At the end of 2000, approximately 82 per cent of Indofood's US$417.4 million of U.S. dollar denominated net borrowings were hedged through foreign currency swap agreements which mature on various dates between 2001 and 2005.

PLDT carries U.S. dollar debt primarily because international vendors of telecommunications equipment quote prices and require payment in U.S. dollars. In addition, large funding requirements often cannot be satisfied in local currency due to an inherent lack of depth in the financial markets in the Philippines. As a result, finance frequently needs to be sourced from the international capital market, principally in U.S. dollars. PLDT's U.S. dollar borrowings are unhedged as it is not possible in the Philippines to hedge significant U.S. dollar balances. However, substantial revenues of PLDT are either denominated in, or linked to, the U.S. dollar. For example, PLDT's U.S. dollar denominated international inbound revenue accounted for approximately US$185.5 million or 18.7 per cent of the company's total revenue in 2000. In addition, under certain circumstances, PLDT is able to adjust its monthly recurring rates for the fixed line service by 1.0 per cent for every Peso 0.1 change in the U.S. dollar exchange rate.

Escotel carries U.S. dollar borrowings for similar reasons to PLDT. Approximately 50 per cent of the debt has been hedged.

Key Regional Currency
Closing Rates
Against the U.S. Dollar



As a result of the relatively large unhedged U.S. dollar net indebtedness, particularly in the Philippines, the Group's results are sensitive to fluctuations in U.S. dollar exchange rates. The following table illustrates the estimated impact, arising from unhedged U.S. dollar net indebtedness, on the Group's reported profitability for a 1.0 per cent depreciation of the principal operating currencies of subsidiary and associated companies against the U.S. dollar. This does not reflect the indirect impact on the Group's operational results as a consequence of changes in revenues and cost of sales due to fluctuation in U.S. dollar exchange rates.

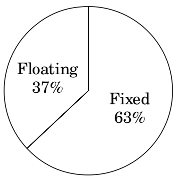
	US$ Net indebted-ness US$m	Hedged amount(i) US$m	Unhedged amount(i) US$m	Profit impact of 1% currency depreciation US$m	**Group profit impact(ii) US$m**
PLDT	3,468.0	–	3,468.0	(34.7)	**(5.8)**
Metro Pacific	66.9	–	66.9	(0.7)	**(0.4)**
Total Philippines	3,534.9	–	3,534.9	(35.4)	**(6.2)**
Indofood	417.4	343.0	74.4	(0.7)	**(0.2)**
Darya-Varia(iii)	9.0	–	9.0	(0.1)	**(0.1)**
Total Indonesia	426.4	343.0	83.4	(0.8)	**(0.3)**
Escotel (India)	75.2	37.6	37.6	(0.4)	**(0.2)**
Head Office (Hong Kong)	239.1	–	239.1	–	**–**
Berli Jucker (Thailand)	(0.8)	–	(0.8)	–	**–**
Total					**(6.7)**

(i) Excludes the impact of "natural hedges".
(ii) Net of tax effect.
(iii) Represents inter-company funding from Head Office.

In summary, the Group manages exposure to exchange movements to the extent to which it is possible or practicable, including the following:

- PLDT's revenues are linked to the U.S. dollar, which partially compensates for the effects of the Peso's depreciation on unhedged U.S. dollar debt.
- Metro Pacific continues to explore ways to reduce its U.S. dollar debt through its on-going disposal of non-core assets and, where possible, replace U.S. dollar debt with Peso borrowings.
- Indofood is investigating options to repay more of its U.S. dollar denominated debt in 2001, thereby eliminating its unhedged exposure.

Interest Rate Profile



	US$millions
Fixed	473.5
Floating	277.9
Total	751.4

INTEREST RATE RISK

The Company and the majority of its operating entities are exposed to changes in interest rates to the extent that they impact the cost of variable rate borrowings. An analysis of consolidated net indebtedness and interest rate profile, together with details for associated companies, follows:

	Net indebtedness			
	Fixed interest borrowings US$m	Variable interest borrowings US$m	Cash and bank US$m	**Total US$m**
Head Office	317.9	–	(167.9)	**150.0**
Metro Pacific	154.9	194.6	(46.4)	**303.1**
Berli Jucker	0.6	83.3	(13.5)	**70.4**
Darya-Varia(i)	0.1	–	(1.7)	**(1.6)**
CONSOLIDATED NET INDEBTEDNESS	473.5	277.9	(229.5)	**521.9**

(i) Excludes inter-company funding from Head Office of US$9.0 million.

ASSOCIATED COMPANIES

	Net indebtedness			
	Fixed interest borrowings US$m	Variable interest borrowings US$m	Cash and bank US$m	**Total US$m**
Indofood	177.5	515.7	(198.7)	**494.5**
PLDT	2,557.4	1,366.5	(193.6)	**3,730.3**
Escotel	29.2	149.3	(1.9)	**176.6**

As a result of variable interest rate debt at a number of operating companies, the Group's results are sensitive to fluctuations in interest rates. The following table illustrates the estimated impact on the Group's reported profitability of a 1.0 per cent increase in average annual interest rates for those entities which hold variable interest rate debt.

	Variable interest borrowings US$m	Profit impact of 1% increase in interest rates US$m	**Group profit impact(i) US$m**
Metro Pacific	194.6	(1.9)	**(1.1)**
Berli Jucker	83.3	(0.8)	**(0.5)**
Indofood	515.7	(5.2)	**(1.7)**
PLDT	1,366.5	(13.7)	**(2.3)**
Escotel	149.3	(1.5)	**(0.7)**
TOTAL			**(6.3)**

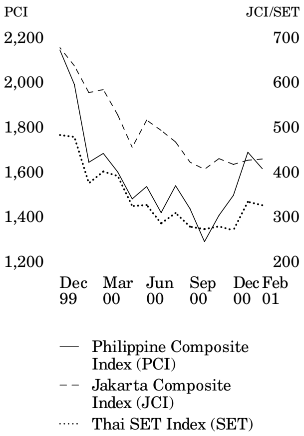
(i) Net of tax effect.

EQUITY MARKET RISK

As the majority of its investments are in listed entities, the Company is exposed to fluctuations in the equity values for those companies in which it has invested. In addition, the value of the Company's investments may be impacted by sentiment towards specific countries or geographical areas. For example, as PLDT represents approximately 15 per cent of the Philippine Composite Index, it is often taken as a proxy for market sentiment towards Philippine equities as a whole. Indofood represents approximately four per cent of the Jakarta Composite Index.

First Pacific's listed investments are principally in the Philippines, Indonesia and Thailand. Accordingly, in addition to operating factors within the Company's control, the Company also has an equity market risk in respect of sentiment towards those countries. Changes in the stock market indices of the Philippines, Indonesia and Thailand during 2000 may be summarized as follows:

Stock Market Indices



	Philippine Composite Index	Jakarta Composite Index	Thailand SET Index
Index at 31 December 1999	2,142.97	676.919	481.92
Index at 31 December 2000	1,494.50	416.321	269.19
Decline during 2000	30.3%	38.5%	44.1%
Index at 5 March 2001	1,616.54	426.127	300.24
Increase since 2000	8.2%	2.4%	11.5%

As noted above, the weakness in the above markets during 2000 has had a significant impact on First Pacific's share price. The Company attempts to mitigate its exposure to equity market risk by ensuring that its operating companies remain amongst the best managed in Southeast Asia. As a consequence of this and their inherently strong cash flows, management believes that First Pacific's businesses are significantly undervalued and are well positioned to benefit from any recovery in local equity markets.