FINANCIAL REVIEW

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LIQUIDITY AND FINANCIAL RESOURCES

(A) COMPANY NET DEBT

The outstanding convertible bonds, which were issued by the Company in March 1997, amounting to US$331.7 million including a redemption premium of US$82.5 million, were fully redeemed in March 2002 by utilizing a bank loan of US$190.0 million and cash resources. The increase in net debt is, therefore, attributable mainly to the redemption premium that was previously classified within accruals. The Head Office's borrowings at 31 December 2002 comprise a bank loan of US$187.4 million, which is repayable in December 2003.

CHANGES IN HEAD OFFICE NET DEBT

	Borrowings US$m	Cash and bank balances US$m	Net debt US$m
At 1 January 2002	297.8	(214.5)	83.3
Movement	(110.4)	179.2	68.8
AT 31 DECEMBER 2002	**187.4**	**(35.3)**	**152.1**

HEAD OFFICE CASH FLOW

	2002 US$m	2001 US$m
Net cash outflow from operating activities	**(3.8)**	(6.4)
Net cash outflow from servicing of finance	**(9.6)**	(4.2)
Dividends paid to shareholders	**–**	(4.0)
Investments	**(7.8)**	(117.5)
(Expenses)/proceeds on disposal	**(5.5)**	204.2
Financing activities		
– Convertible bonds repayment	**(331.7)**	(25.5)
– Net bank loan drawdowns	**187.4**	–
– Loan facility expenses	**(8.2)**	–
(DECREASE)/INCREASE IN CASH AND BANK BALANCES	**(179.2)**	46.6

(B) GROUP NET DEBT AND GEARING

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

Net Debt and Gearing

CONSOLIDATED

	Net debt[i] 2002 US$m	**Net assets 2002 US$m**	**Gearing 2002 times**	Net debt[i] 2001 US$m	Net assets/ (liabilities) 2001 US$m	Gearing 2001 times
Head Office	**152.1**	**726.5**	**0.15x**	83.3	693.5	0.09x
Indofood	**676.9**	**463.8**	**1.46x**	442.5	318.6	1.39x
Metro Pacific	**233.7**	**139.0**	**1.68x**	264.6	188.7	1.40x
Disposed business[ii]	**–**	**–**	**–**	0.1	(14.0)	–
CONSOLIDATED BEFORE GOODWILL RESERVE	**1,062.7**	**1,329.3**	**0.80x**	790.5	1,186.8	0.67x
Goodwill reserve	**–**	**(976.4)**	**–**	–	(985.8)	–
CONSOLIDATED AFTER GOODWILL RESERVE	**1,062.7**	**352.9**	**3.01x**	790.5	201.0	3.93x

ASSOCIATED

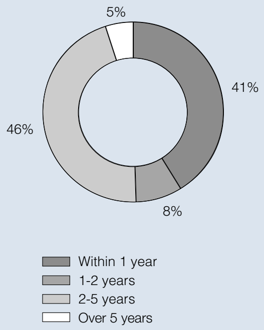
	Net debt 2002 US$m	**Net assets/ (liabilities) 2002 US$m**	**Gearing 2002 times**	Net debt 2001 US$m	Net assets/ (liabilities) 2001 US$m	Gearing 2001 times
PLDT	**2,964.7**	**1,678.4**	**1.77x**	3,321.1	1,733.5	1.92x
Escotel	**183.8**	**(36.3)**	**–**	182.4	(22.7)	–

(i) Includes pledged deposits and excludes inter-company debt.
(ii) Represents Infrontier.

- Head Office's gearing increased as a result of repaying the convertible bonds, including US$82.5 million of redemption premium that was previously classified within accruals.
- Indofood's gearing increased mainly because of increased borrowings for working capital and capital expenditure requirements.
- Metro Pacific's gearing increased mainly because of losses for the year, which resulted in a decline in net assets.
- PLDT's gearing declined as profits increased net assets, and free cash flows reduced net debts.

The maturity profile of consolidated debt follows. The lengthening of the debt maturity profile principally reflects a lengthening of the profile of Indofood's debt. In particular, Indofood's short-term debts were replaced through a US$100 million two-year term loan and US$280 million of five-year Euro bonds.

Maturity Profile of Consolidated Debt 2002

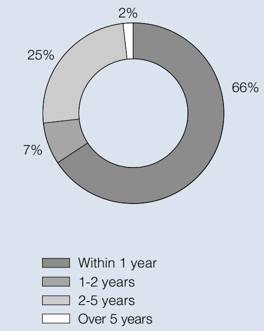


MATURITY PROFILE OF CONSOLIDATED DEBT

	2002 US$m	2001 US$m
Within one year	**531.7**	750.2
One to two years	**106.7**	86.0
Two to five years	**586.2**	285.1
Over five years	**64.3**	20.3
TOTAL	**1,288.9**	1,141.6

The maturity profile of the borrowings of the Group's associated companies follows. The lengthening of the debt maturity profile of PLDT primarily reflects the results of its liability management program.

Maturity Profile of Consolidated Debt 2001



MATURITY PROFILE OF ASSOCIATED COMPANIES' DEBT

	PLDT		Escotel	
	2002 US$m	2001 US$m	2002 US$m	2001 US$m
Within one year	**374.9**	548.7	**30.6**	8.5
One to two years	**470.7**	687.0	**54.6**	28.3
Two to five years	**1,416.6**	1,292.9	**100.1**	149.0
Over five years	**907.0**	869.5	**–**	–
TOTAL	**3,169.2**	3,398.1	**185.3**	185.8

(C) NET CURRENT LIABILITIES

Through the repayment or refinancing of debt, the Group reported net current assets of US$20.6 million at 31 December 2002, as compared to net current liabilities of US$234.5 million at 31 December 2001. On a pro forma basis, which reflects the sale and assignment of the US$90.0 million Larouge loan and the 50.4 per cent pledged interest in Bonifacio Land Corporation, the Group will record net current assets of US$140.3 million.

FINANCIAL RISK MANAGEMENT

FOREIGN CURRENCY RISK
(A) COMPANY RISK

As the US$187.4 million Head Office bank loan is denominated in HK dollars (which is pegged to the U.S. dollar at a fixed exchange rate), foreign currency risk relates mainly to the receipt of cash dividends and to the translation of non-U.S. dollar denominated investments in subsidiary and associated companies.

The Company actively reviews the potential benefits of hedging based on forecast dividend flows. However, the Company does not actively seek to hedge risks arising on the translation of foreign currency denominated investments, due to the non-cash nature of such investments and the high costs associated with such hedging. Accordingly, First Pacific is exposed to the impact of foreign currency fluctuations on the translated U.S. dollar value of its foreign currency denominated investments.

With the exception of Escotel and the Head Office, the principal components of the Company's adjusted net asset value (NAV) relate to investments denominated in rupiah or pesos. Accordingly, any depreciation of these currencies, against their respective 31 December 2002 exchange rates, would have a negative impact on the Company's NAV in U.S. dollar terms.

The following table illustrates the estimated impact on the Company's adjusted NAV for a one per cent depreciation of the rupiah and peso against the U.S. dollar.

Company	Effect on adjusted NAV(i) US$m	Effect on adjusted NAV per share HK cents
Indofood	(2.95)	(0.72)
PLDT	(2.09)	(0.51)
Metro Pacific	(0.45)	(0.11)
TOTAL(ii)	(5.49)	(1.34)

(i) Adjusted NAV is based on quoted share prices applied to the Company's economic interest.
(ii) The NAV of the Group's investment in Escotel is based on its historic U.S. dollar cost and, accordingly, any depreciation of the rupee would not affect the Company's adjusted NAV.

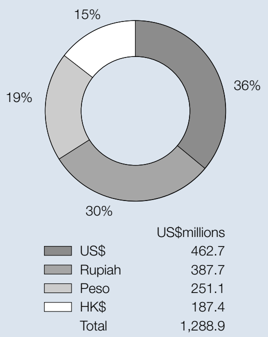
(B) GROUP RISK

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

NET DEBT BY CURRENCY

First Pacific's policy is for each operating entity to borrow in local currency where possible. However, it is often necessary for companies to borrow in U.S. dollars, which results in the risk of a translation impact on local currency results. A summary of consolidated and associated company net debt by currency follows.

Analysis of Total Borrowings by Currency



CONSOLIDATED

	US$ US$m	Peso US$m	Rupiah US$m	HK$ US$m	**Total US$m**
Total borrowings	462.7	251.1	387.7	187.4	**1,288.9**
Cash and bank balances[(i)]	(56.5)	(13.6)	(151.5)	(4.6)	**(226.2)**
NET DEBT	406.2	237.5	236.2	182.8	**1,062.7**
REPRESENTING:					
Head Office	(30.5)	(0.2)	–	182.8	**152.1**
Indofood	440.7	–	236.2	–	**676.9**
Metro Pacific[(ii)]	(4.0)	237.7	–	–	**233.7**
NET DEBT	406.2	237.5	236.2	182.8	**1,062.7**

ASSOCIATED

	US$ US$m	Peso US$m	Yen US$m	Rupee US$m	**Total US$m**
PLDT	2,867.1	(117.3)	214.9	–	**2,964.7**
Escotel	74.0	–	–	109.8	**183.8**

(i) Includes pledged deposits.
(ii) Excludes Head Office inter-company loan of US$90.0 million.

Details of Head Office net debt are set out on page 16.

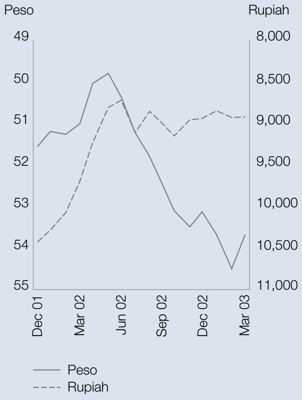
Indofood hedges its U.S. dollar debt through foreign currency swap agreements, export revenues and U.S. dollar deposits. During the year, Indofood raised a US$100 million two-year term loan facility for working capital purposes, and US$280 million through competitively priced five-year Euro bonds, the proceeds of which were used to replace existing debts, principally U.S. dollar denominated. At the end of 2002, Indofood's US$440.7 million of U.S. dollar denominated net borrowings were partly hedged through foreign currency swap agreements totaling US$310.0 million, which mature on various dates in 2005 and 2007.

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 inherent constraints within the financial markets in the Philippines. As a result, financing frequently needs to be sourced from the international capital market, principally in U.S. dollars. Although it is not possible to hedge significant U.S. dollar balances in the Philippines, PLDT has actively hedged approximately 22 per cent of its U.S. dollar borrowings. 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$163.9 million, or 10.6 per cent, of PLDT's total revenues in 2002. In addition, under certain circumstances, PLDT is able to adjust the monthly recurring rates for its fixed line service by one per cent for every Peso 0.1 change in the U.S. dollar exchange rate.

Escotel carries U.S. dollar borrowings for reasons similar to PLDT. Approximately 57 per cent of its U.S. dollar debt has been hedged into rupees.

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

Rupiah and Peso Closing Rates Against the U.S. Dollar

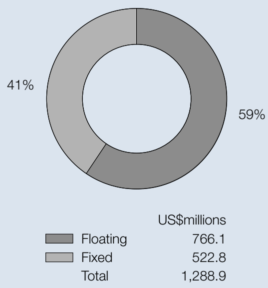


	Total US$ exposure US$m	Hedged amount(i) US$m	Unhedged amount(i) US$m	Profit impact of 1% currency depreciation US$m	**Group profit impact(ii) US$m**
PLDT	2,867.1	(638.7)	2,228.4	(22.3)	**(3.7)**
Metro Pacific(iii)	86.0	–	86.0	(0.9)	**(0.5)**
TOTAL PHILIPPINES	2,953.1	(638.7)	2,314.4	(23.2)	**(4.2)**
Indofood (Indonesia)	440.7	(310.0)	130.7	(1.3)	**(0.5)**
Escotel (India)	74.0	(42.0)	32.0	(0.3)	**(0.1)**
Head Office(iv)	(30.5)	–	(30.5)	–	**–**
TOTAL	3,437.3	(990.7)	2,446.6	(24.8)	**(4.8)**

(i) Excludes the impact of "natural hedges".
(ii) Net of tax effect.
(iii) Includes Head Office inter-company loan of US$90.0 million.
(iv) As the Group reports its results in U.S. dollars, unhedged HK dollar debt at the Head Office does not give rise to any significant exchange exposure.

INTEREST RATE RISK The Company and its operating entities are exposed to changes in interest rates to the extent that they impact the cost of variable interest rate borrowings. An analysis of this follows, together with details for associated companies.

Interest Rate Profile



CONSOLIDATED

	Fixed interest rate borrowings US$m	Variable interest rate borrowings US$m	Cash and bank balances(i) US$m	**Net debt US$m**
Head Office	–	187.4	(35.3)	**152.1**
Indofood	418.9	431.6	(173.6)	**676.9**
Metro Pacific(ii)	103.9	147.1	(17.3)	**233.7**
CONSOLIDATED	522.8	766.1	(226.2)	**1,062.7**

ASSOCIATED

	Fixed interest rate borrowings US$m	Variable interest rate borrowings US$m	Cash and bank balances US$m	**Net debt US$m**
PLDT	2,106.1	1,063.1	(204.5)	**2,964.7**
Escotel	139.3	46.0	(1.5)	**183.8**

(i) Includes pledged deposits.
(ii) Excludes Head Office inter-company loan of US$90.0 million.

The following table illustrates the estimated impact on the Group's reported profitability for a one per cent increase in average annual interest rates.

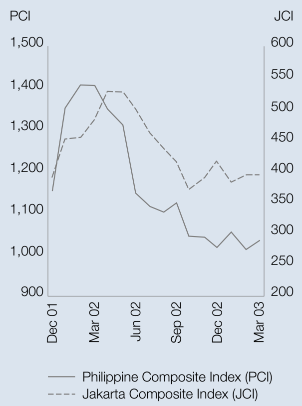
	Variable interest rate borrowings US$m	Profit impact of 1% increase in interest rates US$m	**Group profit impact(i) US$m**
Head Office	187.4	(1.9)	**(1.9)**
Indofood	431.6	(4.3)	**(1.6)**
Metro Pacific	147.1	(1.5)	**(0.8)**
PLDT	1,063.1	(10.6)	**(1.8)**
Escotel	46.0	(0.5)	**(0.1)**
TOTAL	1,875.2	(18.8)	**(6.2)**

(i) Net of tax effect.

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

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

Stock Market Indices

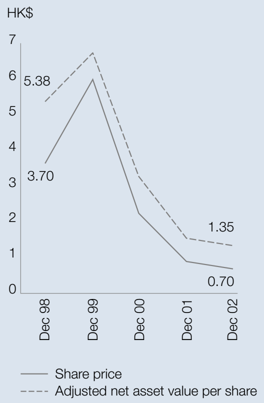


	Jakarta Composite Index	Philippine Composite Index
At 31 December 2001	392.04	1,168.08
At 31 December 2002	424.95	1,018.41
Change over 2002	8.4%	–12.8%
At 17 April 2003	443.86	1,122.33
Increase over 2003 to 17 April 2003	4.4%	10.2%

ADJUSTED NET ASSET VALUE (NAV) PER SHARE

There follows a calculation of the Group's underlying worth, as assessed by calculating the adjusted NAV of each of the Group's investments. For listed investments, this is based on quoted share prices; for unlisted investments, it is based on the book carrying cost.

Share Price vs Adjusted Net Asset Value Per Share



	Basis	17 April 2003 Adjusted NAV US$m	31 December 2002 Adjusted NAV US$m	31 December 2002 Invested capital[i] US$m
Indofood	(ii)	365.4	**294.7**	**706.6**
PLDT	(ii)	301.5	**209.3**	**1,240.7**
Metro Pacific	(ii)	57.3	**45.1**	**648.8**
Escotel	(iii)	71.2	**63.0**	**63.0**
HEAD OFFICE				
– Net debt		(70.3)	**(152.1)**	**(152.1)**
– Receivable	(iv)	–	**90.0**	**90.0**
TOTAL VALUATION	(v)	725.1	**550.0**	**2,597.0**
NUMBER OF ORDINARY SHARES IN ISSUE (millions)		3,186.0	**3,186.0**	**3,186.0**
Value per share				
– U.S. dollar		0.23	**0.17**	**0.82**
– HK dollars		1.78	**1.35**	**6.36**
Company's closing share price (HK$)		0.90	**0.70**	**0.70**
Share price discount to HK$ value per share (%)		49.4	**48.1**	**89.0**

(i) Before impairment provisions effected in 2001.
(ii) Adjusted NAV is based on quoted share prices applied to the Company's economic interest.
(iii) Adjusted NAV is based on investment cost.
(iv) Represents the inter-company loan to Metro Pacific.
(v) No value has been attributed to the Group's investment in Infrontier and Metrosel.