

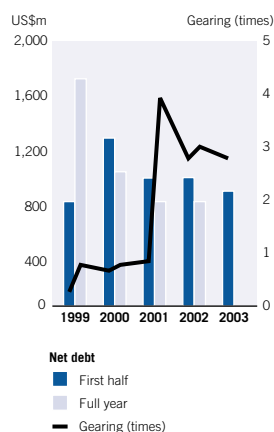
Financial Review

Liquidity and financial resources

Net debt and gearing

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

Net debt and gearing



Consolidated

US\$ millions	At 30 June 2003			At 31 December 2002		
	Net debt ⁽ⁱ⁾	Net assets/ (liabilities)	Gearing (times)	Net debt ⁽ⁱ⁾	Net assets	Gearing (times)
Head Office	91.5	808.0	0.09x	152.1	726.5	0.15x
Indofood	642.6	532.7	1.21x	676.9	463.8	1.46x
Metro Pacific	135.7	(56.2)	–	233.7	139.0	1.68x
Consolidated before goodwill reserve	869.8	1,284.5	0.68x	1,062.7	1,329.3	0.80x
Goodwill reserve	–	(972.2)	–	–	(976.4)	–
Consolidated after goodwill reserve	869.8	312.3	2.79x	1,062.7	352.9	3.01x

Associated

US\$ millions	At 30 June 2003			At 31 December 2002		
	Net debt	Net assets/ (liabilities)	Gearing (times)	Net debt	Net assets/ (liabilities)	Gearing (times)
PLDT	2,765.0	1,672.9	1.65x	2,964.7	1,678.4	1.77x
Escotel	172.3	(87.9)	–	183.8	(36.3)	–

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

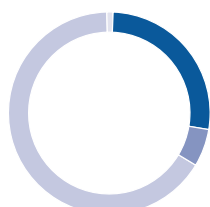
- Head Office gearing decreased as a result of a partial repayment of its bank loan with the proceeds from Metro Pacific's repayment of the Larouge loan.
- Indofood gearing declined as profits and a stronger rupiah enhanced net assets.
- Metro Pacific's net debt decreased and changed from positive net assets position to net liabilities position mainly because of the deconsolidation of BLC.
- PLDT's gearing declined as free cash flows reduced net debt.

Financial Review

Maturity profile

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

**Maturity profile of consolidated debt
30 June 2003**



- 27% Within one year
- 6% One to two years
- 66% Two to five years
- 1% Over five years

Consolidated

US\$ millions	At 30 June 2003	At 31 December 2002
Within one year	303.6	531.7
One to two years	65.2	106.7
Two to five years	733.9	586.2
Over five years	8.1	64.3
TOTAL	1,110.8	1,288.9

The lengthening of the debt maturity profile principally reflects First Pacific's US\$80 million prepayment of its bank loan and a lengthening of the profile of Indofood's debt during the period. In particular, US\$39.2 million of Indofood's short-term debts with high interest costs were refinanced through a Rupiah 1.5 trillion (US\$181.1 million) five-year Rupiah-bonds.

Associated

US\$ millions	PLDT		Escotel	
	At 30 June 2003	At 31 December 2002	At 30 June 2003	At 31 December 2002
Within one year	436.6	374.9	41.8	30.6
One to two years	504.1	470.7	64.3	54.6
Two to five years	1,209.4	1,416.6	66.5	100.1
Over five years	822.0	907.0	–	–
TOTAL	2,972.1	3,169.2	172.6	185.3

Charges on group assets

At 30 June 2003, certain bank loans and other borrowings were secured by the Group's property and equipment, accounts receivable and inventories equating to a net book value of US\$61.8 million (31 December 2002: US\$95.0 million). Apart from these, the Head Office's US\$107.4 million bank loan was principally secured by the Group's interests in Indofood, PLDT and Metro Pacific of 51.5 per cent, 15.8 per cent and 80.6 per cent, respectively.

On 29 July 2003, following the refinancing of the US\$107.4 million bank loan by the issuance of bonds in the amount of US\$115 million, which are secured by the Group's 51.5 per cent interest in Indofood, the charges against the Group's investments in PLDT and Metro Pacific were released.

Financial risk management

Foreign currency risk

(a) Company risk

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

The Company actively reviews the potential benefits of hedging based on forecast dividend flows. 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 the Head Office, the principal components of the Company's adjusted net asset value (NAV) relate to investments denominated in peso or rupiah. Accordingly, any change in these currencies, against their respective 30 June 2003 exchange rates, would have an effect on the Company's NAV in U.S. dollar terms.

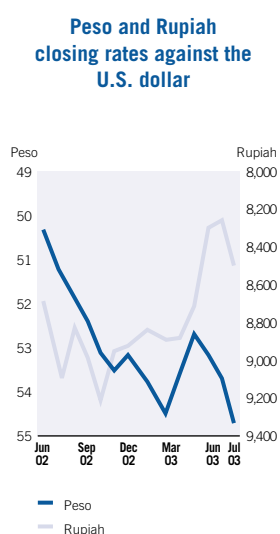
The following table illustrates the estimated effect on the Company's adjusted NAV for a one per cent change of the peso and rupiah against the U.S. dollar.

Company	Effect on adjusted NAV ⁽ⁱ⁾ US\$m	Effect on adjusted NAV per share HK cents
PLDT	4.34	1.06
Indofood	4.51	1.10
Metro Pacific	1.06	0.26
TOTAL	9.91	2.42

(i) Adjusted NAV is based on quoted share prices applied to the Company's economic interest.

(b) Group risk

The Group's operating results are denominated in local currencies, principally the peso and rupiah, which are translated and consolidated to give the Group's result in U.S. dollar. The changes of these currencies against the U.S. dollar is summarized below.

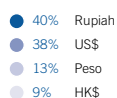
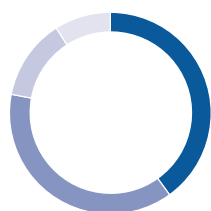


Closing:	At 30 June 2003	At 31 December 2002	Six months change	At 30 June 2002	One year change
Peso	53.71	53.18	-1.0%	50.33	-6.3%
Rupiah	8,285	8,950	8.0%	8,713	5.2%

Average:	Six months ended 30 June 2003	12 months ended 31 December 2002	Six months change	Six months ended 30 June 2002	One year change
Peso	53.58	51.64	-3.6%	50.72	-5.3%
Rupiah	8,674	9,265	6.8%	9,505	9.6%

Financial Review

Analysis of total borrowings by currency



Net debt by currency

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

Consolidated

US\$ millions	US\$	Peso	Rupiah	HK\$	Total
Total borrowings	417.6	141.4	444.4	107.4	1,110.8
Cash and cash equivalents ⁽ⁱ⁾	(39.4)	(5.9)	(194.9)	(0.8)	(241.0)
NET DEBT	378.2	135.5	249.5	106.6	869.8
Representing:					
Head Office	(14.9)	(0.2)	–	106.6	91.5
Indofood	393.1	–	249.5	–	642.6
Metro Pacific	–	135.7	–	–	135.7
NET DEBT	378.2	135.5	249.5	106.6	869.8

Associated

US\$ millions	US\$	Peso	Yen	Rupee	Total
PLDT	2,544.8	49.0	171.2	–	2,765.0
Escotel	69.6	–	–	102.7	172.3

(i) Includes pledged deposits.

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

US\$ millions	Total US\$ exposure	Hedged amount ⁽ⁱ⁾	Unhedged amount ⁽ⁱ⁾	Profit effect of 1% currency change	Group profit effect ⁽ⁱⁱ⁾
PLDT	2,544.8	(867.5)	1,677.3	16.8	2.8
Indofood	393.1	(310.0)	83.1	0.8	0.3
Escotel	69.6	(39.5)	30.1	0.3	0.1
Head Office ⁽ⁱⁱⁱ⁾	(14.9)	–	(14.9)	–	–
TOTAL	2,992.6	(1,217.0)	1,775.6	17.9	3.2

(i) Excludes the effect of "natural hedges".

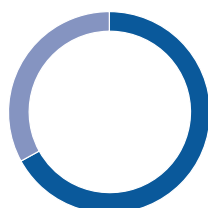
(ii) Net of tax effect.

(iii) 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



● 67% Variable
● 33% Fixed

Consolidated

US\$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents ⁽ⁱ⁾	Net debt
Head Office	–	107.4	(15.9)	91.5
Indofood ⁽ⁱⁱ⁾	333.0	528.9	(219.3)	642.6
Metro Pacific	36.4	105.1	(5.8)	135.7
CONSOLIDATED	369.4	741.4	(241.0)	869.8

Associated

US\$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents	Net debt
PLDT	1,944.1	1,028.0	(207.1)	2,765.0
Escotel	128.9	43.7	(0.3)	172.3

(i) Includes pledged deposits.

(ii) In January 2003, Indofood entered into an interest rate swap agreement with a bank which effectively changed its US\$280 million Euro-bonds from fixed interest rate (10.375 per cent) to variable interest rate (LIBOR+7.39 per cent).

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

US\$ millions	Variable interest rate borrowings	Profit effect of 1% change in interest rates	Group profit effect ⁽ⁱ⁾
PLDT	1,028.0	10.3	1.7
Indofood	528.9	5.3	1.9
Metro Pacific	105.1	1.0	0.6
Escotel	43.7	0.4	0.1
Head Office	107.4	1.1	1.1
TOTAL	1,813.1	18.1	5.4

(i) Net of tax effect.

Financial Review

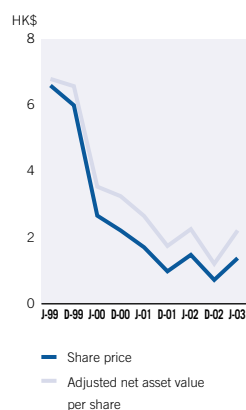
Equity market risk

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

First Pacific's listed investments are located in the Philippines and Indonesia. Accordingly, in addition to operating factors within the Company's control, the Company also has an equity market risk in respect of general investor sentiment towards these countries. Changes in the stock market indices of the Philippines and Indonesia, during the first half of 2003, is summarized as follows:

	Philippines Composite Index	Jakarta Composite Index
At 31 December 2002	1,018.4	425.0
At 30 June 2003	1,222.8	505.5
Increase during first half of 2003	20.1%	19.0%

Share price vs
adjusted net asset value
per share



Adjusted net asset value 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 listed investments.

Adjusted net asset value
by country
30 June 2003



US\$ millions	Basis	At 31 December		
		At 30 June 2003 Adjusted NAV	2002 Invested Capital ⁽ⁱ⁾	2002 Adjusted NAV
PLDT	(ii)	433.8	1,240.7	209.3
Indofood	(ii)	451.0	706.6	294.7
Metro Pacific	(ii)	106.1	648.8	45.1
HEAD OFFICE				
– Net debt		(91.5)	(91.5)	(152.1)
– Receivable	(iii)	–	–	90.0
TOTAL VALUATION	(iv)	899.4	2,504.6	487.0
NUMBER OF ORDINARY SHARES IN ISSUE				
(millions)		3,186.0	3,186.0	3,186.0
Value per share				
– U.S. dollar		0.28	0.79	0.15
– HK dollars		2.20	6.13	1.19
Company's closing share price (HK\$)		1.36	1.36	0.70
Share price discount to HK\$ value per share (%)		38.2	77.8	41.2

(i) Before impairment provisions effected in 2001.

(ii) Adjusted NAV is based on quoted share prices applied to the Company's economic interest.

(iii) Represents the inter-company loan to Metro Pacific.

(iv) No value has been attributed to the Group's investment in Escotel, Mobile-8 and Infrontier.

Employee information

The following information relates to the Head Office and its subsidiaries.

Six months ended 30 June	2003	2002
US\$ millions		
EMPLOYEE REMUNERATION (INCLUDING DIRECTORS' REMUNERATION)		
Basic salaries	61.0	50.9
Bonuses	7.3	7.5
Benefits in kind	11.5	12.1
Pension contribution	2.2	1.1
TOTAL	82.0	71.6
	2003	2002
NUMBER OF EMPLOYEES		
– At 30 June	44,490	48,500
– Average for the period	44,515	47,045

For details regarding the Group's remuneration policies for Directors and senior executives, please refer to page 26 of First Pacific's 2002 Annual Report.