7th September 1998

FIRST PACIFIC'S FIRST HALF PROFIT RISES FOURFOLD TO US$436 MILLION, BOLSTERED BY PROCEEDS OF HAGEMEYER SALE

First Pacific Company Limited reported today that its attributable profit rose nearly fourfold in the year's first six months to US$435.6 million (HK$3,397.7 million), bolstered by proceeds from the sale in March of its Dutch-based subsidiary, Hagemeyer, in one of the largest secondary offerings ever to take place in Europe.

Attributable profit before exceptionals fell 77.4 per cent to US$23.7 million (HK$184.9 million), as earnings per share fell by a corresponding 77.5 per cent to US1.00 cent (HK7.80 cents). This performance reflects lower contributions from each of the Group's four business areas due to the regional recession, the weakening of local currencies against the dollar and diminished contributions from companies that have been divested, as well as conservative provisioning. Turnover declined 39.5 per cent to US$2,284.5 million (HK$17,819.1 million).

The proportion of earnings paid to shareholders in dividends rose to 32 per cent from 26 per cent, representing the upper end of the Group's historic band of 25-35 per cent. This has resulted in an interim payout of US0.32 cent, or HK2.50 cents, per share, compared with US1.16 cents, or HK9.00 cents in the year-earlier period.

Excellent progress was achieved over the first half in attaining the Group's longer-term objectives. These center on raising US$2.1 billion (HK$16.4 billion) through the sale of mature assets that offer limited growth prospects - a process that began in December with the sale of Pacific Link, the Group's Hong Kong cellular-phone network.

In the first half, the divestment of Hagemeyer and California's United Commercial Bank contributed to exceptional gains of US$643 million (HK$5,015 million), compared with gains of US$54 million (HK$421 million) in the year-earlier period. However, provisions of US$236 million (HK$1,841 million) were taken as exceptional charges, to ensure that the value of the Group's investments reflect changes in the region's markets.

Benefiting from these disposals, First Pacific's net debt was reduced by 86.4 per cent to US$349.0 million (HK$2,722.2 million) at 30th June from US$2,558.6 million (HK$19,957.1 million) a year earlier, while shareholders' equity rose nearly sevenfold to US$1,388.1 million (HK10,827.2 million). The Group's gearing - the proportion of net indebtedness to consolidated net assets - shrank to 13 per cent from 155 per cent December 1997.

Net cash at Head Office level for further investment stood at US$886 million (HK$6,910.8 million) at 30th June.

Commenting on the results, First Pacific's Managing Director Manuel V. Pangilinan said: "I am gratified to note that we have made rapid headway in achieving our agenda for addressing Asia's new environment, despite operational challenges that are reflected in our lower recurrent earnings. This program is designed to ensure that the Group is better able to weather Asia's economic storm, better positioned to benefit when the competition is at its most vulnerable and better suited to invest in promising businesses at attractive prices.

"Our first step has been to crystallize US$2.1 billion in shareholder value created over more than a decade. This highlights First Pacific's success in making investments that deliver excellent returns to shareholders, and it is perhaps worth recapping just what each investment has meant in terms of financial returns:

- United Commercial Bank, was sold for US$18 million in April, crystallizing an average cash return of 19 per cent a year over 13 years.

- Hagemeyer was sold in March for US$1.7 billion, crystallizing an average cash return of 24 per cent a year over 15 years.

- Pacific Link was sold last December for US$341 million, crystallizing an average cash return of 23 per cent a year over 10 years.

- And, Tech Pacific was injected into Hagemeyer last October for US$250 million in shares, crystallizing an average cash return of 20 per cent over 10 years.

"In deploying the cash we have raised, our top priorities have been to reduce borrowings and to strengthen our key subsidiaries through equity injections. In the absence of investment liquidity from third parties, these injections have enabled us to increase our holding in fundamentally strong businesses at a time when they are trading below book value. Moreover, the funds we have invested are enabling the businesses themselves to enhance their local standing when competing firms with less solid backing are at their most vulnerable. Among the investments we have recently made in our own businesses are:

- Injecting US$357 million into Metro Pacific, raising First Pacific's attributable economic interest to 90 per cent from 73 per cent.

- Injecting US$95 million into Berli Jucker, raising First Pacific's attributable economic interest to 84 per cent from 61 per cent.

- Injecting US$84 million into Smart, raising First Pacific's attributable economic interest to 64 per cent from 52 per cent.

- And, injecting US$16 million into Darya-Varia, raising First Pacific's attributable economic interest to 90 per cent from 51 per cent.

"Finally, we are carefully reviewing a list of significant companies with solid long-term potential that we believe can be acquired at attractive prices. Our search is focused on Thailand, Hong Kong/China, the Philippines and Indonesia, with emphasis on companies in our existing business areas. However, we are mindful that in market conditions like these, there is no question that a measured, calculated approach is called for.

"Looking ahead, it is difficult to be sanguine about the region during the year's second half. There is little doubt that operating conditions will deteriorate further in each of our major markets. Consumer spending is weak. Credit is tight. And investor confidence in the region as a whole is at its low-water mark for a generation.

"Yet my faith in the longer term remains undiminished. Everything we know about markets and the work ethic and determination of Asia's people suggests that the region's economies will return to their path of growth. And I am equally confident that First Pacific is taking the right steps to ensure that we will be among the first to benefit when conditions ultimately stabilize," Mr Pangilinan concluded.

In **Marketing & Distribution**, contribution to profit before exceptionals decreased 72.8 per cent to US$13.8 million, as turnover fell 42.7 per cent to US$1,891.1 million. Within the segment:

- **Metro Pacific Corporation**, the Group's Philippine flagship, contributed a loss of US$8.1 million from its consumer-products and packaging activities, compared with a loss of US$1.6 million a year earlier, equivalent to a six-fold decline in local currency terms. Peso revenues increased reflecting strong sales growth at Wilkins Distilled Drinking Water, the country's leading brand of bottled water, and Metrolab, which produces facial astringents and skin creams. However, the consumer products division's performance was undermined by substantially higher financing charges related to higher interest rates. Losses from packaging operations narrowed significantly from a year earlier, as declines in the overall sector were offset by improved operating efficiencies.

- **Berli Jucker Public Company Limited**, a conglomerate that serves as First Pacific's flagship in Thailand, contributed US$2.9 million, down 62.8 per cent from a year earlier, equivalent to a 37.8 per cent decline in baht terms. Sales improved in its packaging activities, including Thai Glass Industries, its largest single business, as well as in most of its consumer-product and technical-product businesses. The impact of this growth was offset, however, by higher costs related to materials and currency hedging premiums.

- **PT Darya-Varia Laboratoria**, an Indonesian integrated pharmaceuticals group, contributed US$1.5 million, down 11.8 per cent from a year earlier - equivalent to a three-fold improvement in rupiah terms - augmented by the Group's increased average economic interest in the business to 55.6 per cent from 51.4 per cent a year earlier. The company achieved improved margins, although the effects of strong revenue growth and rigorous expense controls were eroded by higher costs for imported raw materials and increased financing charges.

- **Hagemeyer N.V.**, a Dutch trading group, contributed profit of US$17.5 million on turnover of US$1,680.1 million, prior to its disposal at the end of March. The sale represents the keystone in First Pacific's strategy to crystallize shareholder value and position itself to benefit from opportunities arising in Asia.

Telecommunications contributed a loss of US$0.7 million compared with a profit of US$28.0 million, as revenue declined 48.2 per cent to US$111.7 million. The total number of cellular subscribers from ongoing operations increased to 919,000 from 757,000 at year-end, excluding a further 268,000 from Pacific Link which was sold in December. Within the segment:

- **Smart Communications**, Inc., the Philippines' premier integrated telecoms company, contributed US$6.6 million, up 6.5 per cent, as revenue increased 3.1 per cent to US$111.7 million. The company's strong underlying performance - in local currency terms, contribution rose 61.8 per cent and revenue increased 57.7 per cent - was eroded by the weaker peso and the decline in the Group's average economic interest in the company to 53.9 per cent from 56.2 per cent. Smart continued to benefit from the rapid growth of its cellular subscriber base, which increased to 717,000 on 30th June from 623,000 at year-end 1997, although average monthly revenue per subscriber came under pressure related to the broadening of the customer base and the deteriorating economic climate. Customer take-up of its fixed-line service was slower than expected at 106,000 subscribers compared with 85,000 at year-end, however, monthly revenue per subscriber has generally exceeded forecast. IDD usage logged through its international gateway facility climbed to 4.3 million minutes of outgoing calls in the first half from 3.5 million minutes a year earlier.

- **Shenzhen Merchant Link Communications Company Limited**, which is licensed to provide cellular services in the Greater Shenzhen area, and **Fujian Telecom Limited**, which serves Fujian province, saw their contribution improve 44.4 per cent to US$1.3 million. Subscriber numbers at Shenzhen Merchant Link rose to 50,000 from 33,000 at year-end and was bolstered by the expansion of service into the adjacent city of Dongguan, as average monthly revenues held largely steady. The Fujian operation saw little growth in subscriber numbers related to continuing interconnection problems; however, these issues have now largely been resolved and the network is being expanded.

- **Escotel Mobile Communications Limited**, which provides GSM services in the Indian states of Uttar Pradesh (West), Haryana and Kerala, contributed a loss of US$7.9 million, following its official launch in August 1997. Subscriber numbers rose to 55,000 from 37,000 at year-end 1997, while average monthly revenues held generally stable at low levels reflecting the relatively early stage of the Indian telecoms markets. The company continued to retain a dominant position in each of its three markets and significant marketing efforts are underway to bolster both subscriber numbers and usage. The company's contribution was adversely affected by the rupee's 10.7 per cent decline against the U.S. dollar from the year-earlier period.

- **PT Metrosel Selular Nusantara**, which provides mobile cellular services in Central and East Java, contributed a loss of US$0.7 million, compared with a profit of US$0.4 million a year earlier. In rupiah terms, revenue declined by 20.1 per cent, reflecting Indonesia's economic crisis, as subscriber numbers contracted to 35,000 from 39,000 at year-end. Earnings were further eroded by increased costs for both network operating and administration expenses. In keeping with the Group's prudent accounting policies, a provision of approximately US$150 million was taken covering its total investment cost in the business.

In **Property**, profit contribution declined 82.7 per cent to US$6.3 million from US$36.4 million, as turnover increased 20.3 per cent to US$233.9 million. Within the segment:

- **First Pacific Davies Holdings Limited**, which provides fully integrated property services, contributed US$0.5 million, down from US$26.3 million a year earlier. The agency business was hampered by the contraction of the property market both in Hong

Kong and the rest of the region. Although FPD Guardforce, which provides security services, achieved continued progress in the territory, profitability was somewhat affected by start-up losses from new ventures and the region's economic slowdown. The drop in overall profit was sharply exaggerated by gains in the year-earlier period of US$16.9 million from the sale of property investments in Hong Kong and Ho Chi Minh City, which were completed before those markets went into decline.

- **Bonifacio Land Corporation**, the main force behind efforts to develop the former Fort Bonifacio military camp into the Philippines' first city of the 21st century, saw its contribution decline 43.8 per cent to US$4.5 million, equivalent to a 14.3 per cent decline in peso terms. The weaker performance largely reflected increased finance charges. Progress continued to be achieved in building the key infrastructure in the 57-hectare first phase of the project, which is now approximately 56 per cent complete, compared with 45 per cent at year-end. Work is expected to be completed by December on the first of two major road arteries connecting the project to the rest of Metro Manila.

- **Landco Pacific, Inc. and others** saw their contribution decline 38.1 per cent to US$1.3 million, equivalent to a 7.1 per cent drop in peso terms. This reflects weak sales at Landco, which develops resort and residential properties outside of Metro Manila, offset by slow but continued progress at Pacific Plaza Towers, a landmark luxury condominium complex that remains on track for completion by the middle of the year 2000.

In **Banking**, profit contribution declined 27.8 per cent to US$9.6 million while turnover declined 28.0 per cent. Within the segment:

- **First Pacific Bank's** contribution fell 29.6 per cent to US$8.1 million, as turnover slowed 28.0 per cent to US$47.8 million, reflecting the economic slowdown in the territory, where it operates 26 retail branches. Its net interest margin fell to 2.1 per cent from 3.0 per cent a year-earlier, reflecting higher funding costs. Specific loan loss provisions of US$7.1 million rose nearly four-fold from US$1.8 million a year-earlier. Assets declined 7.4 per cent to US$3.6 billion, as the sale of US$285 million of mortgage loans led to a 7.7 per cent decline in its loan book. The bank's cost-to-income ratio rose to 52.4 per cent from 43.1 per cent despite substantial cost-cutting measures. Excellent progress continued to be made in expanding the bank's credit card business which further enlarged its market share.

- **United Commercial Bank**, which operates 27 retail branches in California, contributed US$1.3 million before it was divested in late April in line with the Group's focus on Asian activities, compared with US$1.7 million contribution in 1997's first six months. The bank benefited from the buoyant U.S. economy and its recent conversion from savings-bank status to that of a commercial bank.

- **PDCP Bank**, a Metro Pacific affiliate which operates 68 branches in the Philippines, saw its contribution increase to US$0.2 million, as the Group's increased interest in the bank offset declining revenues.

First Pacific Telecoms Subscriber Data

	Number of cellular subscribers			
	Aug 1998	**June 1998**	**Dec 1997**	**June 1997**
Smart	733,000	717,000	623,000	456,000
Escotel	59,000	55,000	37,000	19,000
Metrosel	31,000	35,000	39,000	32,000
Shenzhen Merchant Link	66,000	50,000	33,000	17,000
Fujian Telecom	27,000	24,000	23,000	11,000
Tuntex	81,000	38,000	2,000	-
Total	**997,000**	**919,000**	**757,000**	**535,000**

SEGMENTAL BUSINESSES REVIEW

(US$ millions)	Turnover 1998	Turnover 1997	Profit after taxation 1998	Profit after taxation 1997	Contribution to Group profit[1] 1998	Contribution to Group profit[1] 1997
	Six months ended 30th June					
Marketing & Distribution						
Metro Pacific[2]	**72.0**	82.2	**(12.0)**	(3.0)	**(8.1)**	(1.6)
Berli Jucker	**127.1**	196.8	**6.3**	17.6	**2.9**	7.8
Darya-Varia	**11.9**	36.0	**1.5**	3.3	**1.5**	1.7
Hagemeyer[4]	**1,680.1**	2,422.4	**44.3**	87.0	**17.5**	32.8
Tech Pacific[4]	**-**	560.1	**-**	10.0	**-**	10.0
Sub-total	**1,891.1**	3,297.5	**40.1**	114.9	**13.8**	50.7
Telecommunications						
Smart	**111.7**	108.3	**9.5**	8.8	**6.6**	6.2
Escotel	**-**	-	**(7.9)**	-	**(7.9)**	-
Shenzhen Merchant Link and Fujian Telecom	**-**	-	**1.3**	0.9	**1.3**	0.9
Metrosel	**-**	-	**(0.7)**	0.4	**(0.7)**	0.4
Pacific Link[4]	**-**	107.4	**-**	30.2	**-**	20.5
Sub-total	**111.7**	215.7	**2.2**	40.3	**(0.7)**	28.0
Property						
Bonifacio Land[2]	**89.8**	-	**34.8**	12.6	**4.5**	8.0
Landco Pacific and others[2]	**4.0**	0.3	**2.0**	3.3	**1.3**	2.1
First Pacific Davies						
- services	**140.1**	144.5	**0.1**	10.4	**0.5**	9.4
- development	**-**	49.6	**-**	16.9	**-**	16.9
Sub-total	**233.9**	194.4	**36.9**	43.2	**6.3**	36.4
Banking						
First Pacific Bank[3]	**47.8**	66.4	**19.5**	26.7	**8.1**	11.5
PDCP Bank[2]	**-**	-	**0.1**	0.2	**0.2**	0.1
United Commercial Bank[4]	**-**	-	**1.3**	1.7	**1.3**	1.7
Sub-total	**47.8**	66.4	**20.9**	28.6	**9.6**	13.3
Contribution from operations	**2,284.5**	3,774.0	**100.1**	227.0	**29.0**	128.4
Corporate overhead			**(8.0)**	(8.3)	**(8.0)**	(8.3)
Net finance charges and others						
- bank deposits less loans			**7.6**	(13.5)	**7.6**	(13.5)
- guaranteed convertible bonds[5]			**(4.9)**	(1.8)	**(4.9)**	(1.8)
Profit after taxation before exceptional items			**94.8**	203.4	**23.7**	104.8
Exceptional items[6]			**410.1**	(15.5)	**411.9**	5.4
Profit after taxation			**504.9**	187.9		
Profit attributable to ordinary shareholders					**435.6**	110.2

(1) Contribution to Group profit represents profit after taxation, after outside interests and before exceptional items.
(2) For presentation purposes, the results of Metro Pacific's Telecommunications, Property and Banking interests are included within Telecommunications (Smart), Property (Bonifacio Land and Landco Pacific) and Banking (PDCP Bank) respectively. The results of Metro Pacific, under Marketing & Distribution, relate solely to its Consumer Products and Packaging manufacturing businesses.
(3) Turnover represents net interest income, fees, commissions and other revenues.
(4) Apart from Pacific Link being disposed of by 31st December 1997, all other disposals occurred during the period.
(5) Includes US$3.4 million interest expense and US$8.1 million redemption premium, partly offset by a US$6.6 million gain on redemption of bonds at less than face value.
(6) For presentation purposes, exceptional items included within profit attributable to ordinary shareholders have been adjusted for related tax and outside interests.

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the six months ended 30th June (In millions)	1998 US$	1997 US$	1998 HK$	1997 HK$
Turnover	**2,284.5**	3,774.0	**17,819.1**	29,437.2
Cost of sales	**(1,908.8)**	(3,163.7)	**(14,888.6)**	(24,676.9)
Administration and other costs	**(203.6)**	(327.4)	**(1,588.1)**	(2,553.7)
Operating profit	**172.1**	282.9	**1,342.4**	2,206.6
Share of profits less losses of associated companies	**4.5**	39.7	**35.1**	309.7
Exceptional items	**407.4**	(16.8)	**3,177.7**	(131.0)
Net borrowing costs	**(55.4)**	(70.5)	**(432.1)**	(549.9)
Profit before taxation	**528.6**	235.3	**4,123.1**	1,835.4
Taxation	**(23.7)**	(47.4)	**(184.9)**	(369.7)
Profit after taxation	**504.9**	187.9	**3,938.2**	1,465.7
Outside interests	**(69.3)**	(77.7)	**(540.5)**	(606.1)
Profit attributable to ordinary shareholders	**435.6**	110.2	**3,397.7**	859.6
Ordinary share dividends proposed	**(7.7)**	(27.5)	**(60.1)**	(214.5)
Retained profit for the period	**427.9**	82.7	**3,337.6**	645.1

CONSOLIDATED BALANCE SHEET as at 30th June (In millions)	**1998** **US$**	1997 US$	**1998** **HK$**	1997 HK$
Assets				
Current assets				
Cash and bank balances	**1,106.5**	571.7	**8,630.7**	4,459.3
Short-term investments	**69.3**	-	**540.5**	-
Accounts receivable and prepayments	**496.6**	2,104.4	**3,873.5**	16,414.3
Inventories	**103.9**	1,385.6	**810.4**	10,807.7
	1,776.3	4,061.7	**13,855.1**	31,681.3
Assets, other than property and equipment, attributable to Banking operations	**3,451.0**	3,738.3	**26,917.8**	29,158.7
Long-term assets				
Property and equipment	**2,797.4**	3,780.2	**21,819.7**	29,485.6
Associated companies	**67.0**	129.7	**522.6**	1,011.7
Long-term investments	**50.5**	101.0	**393.9**	787.8
Long-term receivables	**374.5**	204.8	**2,921.1**	1,597.4
	3,289.4	4,215.7	**25,657.3**	32,882.5
Total assets	**8,516.7**	12,015.7	**66,430.2**	93,722.5
Liabilities and equity				
Current liabilities				
Accounts payable and accruals	**355.4**	1,946.3	**2,772.1**	15,181.1
Short-term borrowings	**475.9**	1,306.3	**3,712.0**	10,189.2
Provision for taxation	**6.9**	67.0	**53.8**	522.6
Dividends	**32.1**	27.4	**250.4**	213.7
	870.3	3,347.0	**6,788.3**	26,106.6
Liabilities attributable to Banking operations	**3,206.1**	3,511.6	**25,007.6**	27,390.5
Long-term liabilities and provisions				
Loan capital and long-term borrowings	**979.6**	1,824.0	**7,640.9**	14,227.2
Deferred liabilities and provisions	**735.9**	568.5	**5,740.0**	4,434.3
	1,715.5	2,392.5	**13,380.9**	18,661.5
Total liabilities	**5,791.9**	9,251.1	**45,176.8**	72,158.6
Equity				
Share capital	**23.7**	23.6	**184.9**	184.1
Share premium	**458.9**	458.3	**3,579.4**	3,574.7
Revenue and other reserves	**1,300.3**	1,056.9	**10,142.3**	8,243.8
Shareholders' equity before goodwill reserve	**1,782.9**	1,538.8	**13,906.6**	12,002.6
Goodwill reserve	**(394.8)**	(1,338.3)	**(3,079.5)**	(10,438.7)
Shareholders' equity	**1,388.1**	200.5	**10,827.1**	1,563.9
Outside interests	**1,336.7**	2,564.1	**10,426.3**	20,000.0
Total equity	**2,724.8**	2,764.6	**21,253.4**	21,563.9
Total liabilities and equity	**8,516.7**	12,015.7	**66,430.2**	93,722.5
Shares in issue on 30th June (millions)	**2,369**	2,362	**2,369**	2,362

The Company maintains its accounts and reports to its shareholders in United States dollars. The figures shown in Hong Kong dollars are for illustration only and are based on a fixed exchange rate of 7.8 Hong Kong dollars to one United States dollar.