EXECUTIVE CHAIRMAN'S LETTER

To Our Shareholders,

The Group continued to face difficult challenges over the first six months of 2001. Weak economic data has weighed heavily on the Philippines, and the leadership crisis in January drove the peso to a low of Pesos 55.8 to the U.S. dollar. Recovery under the new administration has been slow, as exports remain sluggish due to the weakening of the economies of the United States and Japan. Indonesia has also suffered political turmoil, which resulted in depressed consumer and investor confidence and drove the rupiah to a low of Rupiah 12,200 to the U.S. dollar. In Thailand, exports have also contracted on weak demand, and political uncertainty prevailed as the Prime Minister's hold on office appeared to have been put into question. The baht reached a low of Baht 45.9 to the U.S. dollar. Across Asia economies and markets are down.

Nevertheless, First Pacific has, by strategic design, positioned itself firmly in Asia. As such, we remain a long-term investor and while I would not be so bold as to predict when Asia will eventually recover, I have every confidence that it will. In anticipation of that recovery, we continue to focus on those matters over which we do have control: our operations. In this regard, First Pacific's key investments, Indofood and PLDT, have both recorded improved operational results and cash flows.

Indofood, our Consumer investment in Indonesia, increased its rupiah turnover by 21.5 per cent. While this growth did not translate through to operating profit, because the rupiah's decline increased input costs, EBITDA of US$113 million was recorded. Indofood generated sufficient cash to repay some US$60 million of debt during the first half of the year and, subsequent to June 2001, Indofood further reduced its debt levels by settling an additional US$120 million of debt. This is an outstanding feat, during trying times, that reduces Indofood's net debt to US$426.8 million.

PLDT, our Telecommunications investment in the Philippines, grew its peso revenues by 24.6 per cent. Net income showed a ten-fold increase and EBITDA grew by 26.7 per cent to Pesos 19.8 billion. Revenue streams have been significantly diversified, with Wireless now contributing a third of total revenues and PLDT's growing Data and Other Services now contributing over six per cent of total revenues. Utilizing the latest technologies, PLDT has successfully improved its infrastructure to support the enhanced and faster transmission of voice and data. It is now well advanced in the process of being transformed from a voice-dependent telephone company to a full-service telecommunication and multi-media provider.

A full review of the Group's operations is included elsewhere in this report, so I will not elaborate further here. Instead, I would like to consider the current financial challenges facing the Group.

I am very aware of the concerns about the financial health of the First Pacific Group, and I wish to assure you that the resolution of these issues remains the primary focus of your management. In this regard, Metro Pacific has already addressed refinancing concerns at Bonifacio Land Corporation when, in May 2001, Metro Pacific successfully concluded the refinancing of Pesos 3.1 billion of BLC's debt into a Pesos 2.1 billion fully secured seven-year term loan, with the difference being settled out of cash. This is a notable achievement in the current Philippine economic climate. Metro Pacific head office has approximately US$210 million of debt and is now pursuing several initiatives that will enable it to align better its debt profile with future property asset revenues generated by the Fort Bonifacio Global City project. PLDT, as and when the opportunities arise, is considering the sale of surplus assets and refinancing. In the meantime, as PLDT emerges from its heavy investment phase, management focus is on growing EBITDA and containing costs. At First Pacific, our objective is to put in place optimal cost financing that will enable us to repay US$360 million to convertible bondholders in March 2002. In addition, we will continue to focus on increasing dividend cash flows to the Head Office.

Because First Pacific has divested all of its Hong Kong businesses, with the sale of First Pacific Bank in December 2000, it was perhaps inevitable that First Pacific would be removed from the Hang Seng Index (HSI) in June 2001. This reflected, in part, First Pacific's smaller market cap, but also a desire by HSI Services to add China Unicom and MTR Corporation to ensure that the HSI adequately reflects Hong Kong's equity market. I would like to stress that, despite this, First Pacific remains very much committed to Hong Kong, where our headquarters remain, as we believe it continues to be the single best place in the region from which to run an international business. I am therefore pleased to add that as a postscript to our removal from the HSI, First Pacific has since been selected as a constituent stock in the 'Conglomerate' sector of the 200-stock Hang Seng Composite Index that is to be launched on 3 October 2001.

Looking ahead, I am hopeful that recent, positive political developments will improve economic and market sentiment for the region. However, as noted above, First Pacific is a long-term investor in Asia. While we could not have forecast the political and economic developments that have occurred, or indeed the extent of the global technology fallout last year, we did expect that the 1997 crisis would have a pronounced and prolonged adverse effect on the region. Having taken this as an opportunity to reshape the Group, our focus will continue to be on ensuring that our assets are operating at optimum levels given prevailing conditions. We will continue to seek initiatives, such as Indofood's share buy back programme and reviewing our strategic options for Escotel, that will enhance value to shareholders and draw on our experience to ensure that growing and consistent earnings and cash flows, backed by solid management, will remain the cornerstone for long-term growth.

In conclusion, I would like to recognise the efforts of our management and staff who have contributed to achieving commendable results in difficult circumstances. In particular, I acknowledge the contributions of David G. Eastlake, who stepped down as an Executive Director in April 2001. We thank David for his professionalism and friendship, and wish him well in his future endeavours.

Sincerely,
Manuel V. Pangilinan
Executive Chairman