



FIRST PACIFIC COMPANY LIMITED
第一太平

23 May 2007

Dear Shareholders,

I am writing to you on behalf of the Board of First Pacific and as the controlling stakeholder of the Liem Investor concert party which holds 44.23% of First Pacific's share capital.

We have received a letter from Mr. Jeremy Hosking of Marathon Asset Management LLP, a fund based in London that holds approximately 6% of First Pacific's share capital on behalf of its clients. That letter is being circulated to all shareholders and the Board of First Pacific believes it would be appropriate to also provide shareholders with its general position.

We don't agree with the proposals put forward by Mr. Hosking in his letter and we are writing to explain why. This position is based on careful consideration of First Pacific's circumstances and on expert advice.

The Board of First Pacific regularly reviews all strategic options and tools available to it to act in the best interests of all shareholders in building sustainable long-term shareholder value. As the circumstances of the company or the markets have changed, we have demonstrated a proven track record in recent years of adjusting company strategy accordingly in line with this objective.

The Board has determined that the most effective strategy to currently deliver sustainable shareholder value is through a combination of:

- driving organic efficiencies and growth in our invested companies; and
- the execution of strategic acquisitions, either directly by First Pacific or through subsidiaries and affiliated companies, where the price is deemed attractive based on the potential to derive significant upside in the future.

This dual strategy, as executed by our management team, has delivered very positive results on behalf of shareholders in recent years and has helped build the value profile of First Pacific.

The Board would like to draw your attention to the performance of First Pacific over the past five years:

- First Pacific's share price has risen by more than 320 per cent over the last five years, significantly outperforming the Hang Seng index which rose 75 per cent over the corresponding period
- since the end of 2001, First Pacific's total equity has risen by 245 per cent to US\$1.03 billion and net assets, as adjusted to reflect prevailing market values at the end of 2006, have increased by 303 per cent to US\$2.81 billion
- since acquisition, our active participation has contributed to significant progress made by both PT Indofood Sukses Makmur Tbk (Indofood) and Philippine Long Distance Telephone Company (PLDT). Both have consolidated their leadership positions in their respective sectors and geographies and have delivered strong profit growth with PLDT delivering US\$616 million in profit in 2006, 60 per cent of which was returned to shareholders as dividends, and Indofood producing US\$85 million in profit, up 65 per cent on the previous year
- with regard to balancing the creation of long-term growth and more immediate cash returns to our shareholders, First Pacific increased its 2006 dividend per share payout by 83 per cent compared to the previous year.

The Board believes that these achievements, and the improvement in the fundamental strength of the company, validate the current strategy we have chosen to pursue on behalf of shareholders. In recent meetings with investors, as part of our approach in providing open access and the opportunity for constructive dialogue with the Board and management of the company, we received considerable support for the view that the current strategy is appropriate for this phase of the company's growth and the current market dynamics, particularly in the emerging markets of Asia.

Based on our most recent Board review, conducted in May 2007, and the advice of our advisers, the Board has determined that the best course of action to increase long-term shareholder value is a continuation of the current strategy for growth.



This view is also supported by our assessment of macro market trends. Economies in Asia where we operate, such as the Philippines, are expanding and performing at unprecedented rates. In some countries the demand for goods and services which are taken for granted elsewhere are only just now emerging. It is against this exciting backdrop that the Board is convinced that new opportunities for profitable investment will be found.

In recent months, First Pacific has successfully completed two substantial value-enhancing acquisitions in a market and in sectors that have strong growth and performance profiles. This has included the purchase of a significant interest in Maynilad, the franchise to deliver water to the Western part of Manila, and the purchase of an additional indirect interest of 6.4 per cent of shares in PLDT at a strong discount to market. These acquisitions added substantial strength to our existing portfolio, which includes Indofood.

The view of the Board regarding the appropriateness of a share buyback in the current business context is, therefore, that such an action would not be the most effective path to delivering long-term sustainable value creation at this time. The Board's view is based on factors including the following:

- the company does not have a significant cash surplus and has recently financed the acquisition of an additional indirect interest of 6.4 per cent of PLDT shares with long-and short-term borrowings totaling US\$420 million
- the macro business and market environments in our geographic and sector fields of focus indicate significant opportunities will arise to execute acquisitions that are value-creating and that we should maintain maximum capital flexibility to seize these opportunities as they are identified
- while a share buyback may, arguably, generate some expedient short-term increase in share price, an objective analysis of share buybacks in the US, Australia, the UK and Hong Kong has shown that the potential contribution to longer-term value creation for shareholders is not conclusive
- utilization of capital to execute a buyback would have an opportunity cost in terms of being able to deploy existing capital to pursue value-creating acquisitions in the near-to medium-term
- utilization of cash flow or raising additional borrowings to fund a share buyback would result in a rapid increase in the gearing of the company and significant changes to the company's financial position.

The Board remains open to considering all potential options in the future, including the option of share buybacks, for the delivery of long-term shareholder value creation should business circumstances change.

With respect to the option of issuing additional shares in First Pacific to raise capital, the Board has no current plans to do so but believes it is important to have a mandate to do so as appropriate and will regularly review this option, amongst others.

The Board would also like to take this opportunity to reiterate that it believes continuity in the current leadership of the company, and particularly the continued tenure of Mr. Pangilinan as Chief Executive Officer, is in the best interest of all shareholders.

Mr. Pangilinan and his team have been instrumental in achieving the considerable enhancement in value and performance demonstrated by the company that has benefited all shareholders. The Board has full confidence in Mr. Pangilinan and continuation of that confidence will, as it has been in the past, be based on the achievement of clear and objective performance benchmarks set for the company, the CEO, and the management team on behalf of the company's shareholders.

Fellow shareholders, as Chairman of the Board of First Pacific, I have concluded that an affirmative vote on the current resolutions to be put to the Annual General Meeting, as set out in the Notice of Meeting, is in the best interest of all shareholders. I will be voting on behalf of the Liem Investor concert party accordingly.

I urge you to vote affirmatively on the resolutions to support your company's drive for continued growth.

Yours faithfully,
For and on behalf of the Board of
FIRST PACIFIC COMPANY LIMITED

A handwritten signature in black ink, appearing to read "Anthoni Salim".

Anthoni Salim
Chairman