

## Edgar Filing: FIRST PHILIPPINE FUND INC - Form N-30D

FIRST PHILIPPINE FUND INC

Form N-30D

August 28, 2002

July 31, 2002

Dear Shareholder:

For the first six months of 2002, The First Philippine Fund Inc.'s ("Fund") net asset value ("NAV") per share appreciated by 3.90%, from \$3.08 at the end of December 2001 to \$3.20 at the end of June 2002. In this same period, the Fund's share price rose even more significantly -- by 10.51% -- to close at \$2.84 on June 28, 2002. These performances well surpass that of the Fund's benchmark, the Philippine composite index ("Phisix"), which rose by 1.25% in U.S. dollar terms in the first half of the year.

The Fund's positive results in the first half of 2002 allowed it to narrow its slump in its fiscal year ending June 2002. In the 2002 fiscal year, the Fund's per share NAV and share price declined by 15.79% and 10.97%, respectively. Performance improved from the first half of the fiscal year (the last six months of 2001), a period which saw global markets plunge in response to a slowing world economy and the war on terrorism. In that period, the Fund's per share NAV and share price were down by 18.95% and 19.44%, respectively. Comparatively, the Fund's benchmark declined 15.98% in the first half of the fiscal year and 14.93% in the one-year period ending June 2002.

On June 28, 2002, the Fund traded at an 11.25% discount to NAV. This is substantially lower than the 16.56% discount at the end of December 2001. The Fund's discount to NAV has in fact narrowed significantly in 2002. In the first six months of the year, the discount has averaged 10.83%, compared with an average of 16.43% in the full year 2001 and 21.99% in 2000. We believe the Fund's share repurchase program, which began in May 2001, has had an impact on the narrowing of the Fund's discount. As of June 30, 2002, the Fund has repurchased over one million of its shares, equivalent to 9.24% of the Fund's common stock.

### FIRST HALF 2002 MARKET REVIEW

The Philippine stock market performed strongly early in the year. In the first quarter of 2002, the Phisix rose by 21.56% quarter-on-quarter in U.S. dollar terms, with the bulk of the ascent occurring in January and early February. Sentiment on the Philippines turned decisively positive as the government unveiled a better-than-expected 2001 economic report card, credit rating agencies upgraded the country's outlook, interest rates declined and U.S. troops landed in the Philippines for military exercises in Mindanao. Trading volumes increased and liquidity flowed back into the stock market, making the Philippines one of the best performing among the emerging markets.

The rally, however, was not sustained in the second quarter of 2002. The Phisix declined to its year-low at the end of June 2002, dropping 16.71% quarter-on-quarter in U.S. dollar terms. This decline nearly erased the market's early gains. But, with the help of the peso that strengthened by 2.3% in the first six months of 2002, the market was able to eke out a 1.25% gain in U.S. dollar terms in the first half of the year.

The market's drop was concentrated in June. Investors' confidence waned as interim budget deficit numbers veered off targets, raising the specter of a significant rise in interest rates. Domestic political developments that threatened to move government's focus away from its reform agenda, weak first quarter corporate results, concerns on the continued economic weakness of the United States, the Philippines' largest trading partner, and overall bearishness on global equity markets, all weighed down on the Philippine stock market.

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### FOUNDATIONS BEING BUILT

We believe, however, that value has emerged as a result of the market's second quarter decline and that further significant downside at this point is likely to be limited. The opportunity exists to pick up fundamentally sound Philippine companies that have been oversold. We expect more positive news flow to come out of the market and the economy in the second half of the year that should restore investors' confidence in the Philippines.

This view is based on our observation that the foundations for sound fundamentals are clearly and surely, albeit slowly, being built. For example, the macroeconomy remains on track. The country's first quarter GDP growth rate of 3.8%, driven by agriculture and services on the supply side and consumption on the demand side, was generally in line with expectations and showed the continuation of the Philippine economy's recovery that began in 2001. Interest rates hit historic lows in April. While there may have been a slight uptick since then, interest rates remain substantially lower now than last year and should provide a substantial boost to economic growth and corporate profits. Significant progress on peace and order was achieved with the victory against the Abu Sayyaf. A close partnership has been formed between U.S. and Philippine troops in the war against terrorism, and newly appointed police officials aim to curb kidnapping in one year's time. Finally, reform momentum should pick up anew as Congress reopens.

The road may be bumpy, but we believe the country is fundamentally moving in the right direction. Given this, the Fund will remain substantially invested in the stock market and focused on the largest, most liquid and best-managed companies. The Fund will continue to remain more stock selective rather than sector selective. In the near-term, particular attention will be given to undervalued situations and stocks with the greatest potential of showing corporate earnings growth in a recovering domestic and global economy.

### ANNUAL MEETING SHAREHOLDER VOTE

The Fund's Board of Directors, in response to its commitment made a year earlier to take action to allow shareholders to realize net asset value, has authorized a vote for liquidation to be put forth to shareholders at the upcoming annual meeting on October 31, 2002. This action was precipitated by the Fund's exceeding a 12% average discount threshold in the twenty-day trading period prior to July 19, 2002. In its July 26, 2002 press release announcing this decision, the Board also stated its unanimous belief that such liquidation would not be in shareholders' best long-term interests and recommended a vote against it. The Board's belief in the favorable medium- to long-term prospects of the Philippine market and the Fund's share price appreciation potential was a major consideration in forming its position. A copy of the press release can be found at the Fund's website -- <http://www.clementecapital.com/fpf.html>. We encourage your participation in this vote that will determine the direction of the Fund.

Once again, thank you for your continued support for the Philippines and The First Philippine Fund.

Sincerely yours,

/S/LILIA C. CLEMENTE

Lilia C. Clemente

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DIRECTOR, PRESIDENT & CEO

/S/JOAQUIN G. HOFILENA

Joaquin G. Hofilena  
VICE PRESIDENT AND PORTFOLIO MANAGER

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THE FIRST PHILIPPINE FUND INC.  
SCHEDULE OF INVESTMENTS  
JUNE 30, 2002

	Number of Shares
<hr/>	
PHILIPPINE SECURITIES (98.0%)	
<hr/>	
COMMON STOCK (96.1%)	
CONGLOMERATES (13.1%)	
Aboitiz Equity Ventures, Inc.	17,200,000
Ayala Corp. - A	36,464,323
Benpres Holdings Corp. (c)	29,109,700
Metro Pacific Corp. (c)	15,550,000
Pryce Corp. (b) (c)	19,490,000
Uniwide Holdings, Inc. (c)	20,687,000
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CONSTRUCTION/ENGINEERING (1.2%)	
DMCI Holdings, Inc. (c)	25,604,000
Union Cement Corp. (c)	22,038,041
<hr/>	
FINANCIAL SERVICES (12.6%)	
Bank of the Philippine Islands	2,014,881
Bankard, Inc. (c)	6,470,000
Equitable PCI Bank, Inc. (c)	836,000
Metropolitan Bank & Trust Co. (c)	2,197,000
<hr/>	
FOOD AND BEVERAGE (23.8%)	
Del Monte Pacific Ltd. (f)	2,400,000
Jollibee Foods Corp.	3,880,545
La Tondena Distillers, Inc.	1,567,800
San Miguel Corp. - A	4,545,086
Universal Robina Corp.	6,778,200
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MEDIA (3.7%)	
ABS-CBN Broadcasting Corp. PDR (c) (e)	2,649,900
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PORT OPERATIONS (1.2%)	
International Container Terminal Services, Inc.	7,643,750

REAL ESTATE DEVELOPMENT (22.0%)	
Ayala Land, Inc.	26,589,585
Belle Corp. (c)	5,900,008
Filinvest Land, Inc. (c)	32,287,499
SM Prime Holdings, Inc.	24,100,000

TECHNOLOGY (1.6%)	
Ionics, Inc.	2,475,000
Music Corp. (c)	1,900,000
SPI Technologies, Inc. (c)	1,400,500

See Accompanying Notes to Financial Statements

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THE FIRST PHILIPPINE FUND INC.  
SCHEDULE OF INVESTMENTS (CONT'D)  
JUNE 30, 2002

	Number of Shares	
TELECOMMUNICATIONS (14.0%)		
Digital Telecommunications Philippines, Inc. (c)	20,200,000	\$
Globe Telecommunications, Inc. (c)	65,000	
Philippine Long Distance Telephone Co. ADR (c) (d)	475,020	

UTILITIES (2.9%)	
Manila Electric Co. - A (c)	2,257,600

TOTAL COMMON STOCK  
(Cost \$62,731,958)

	Maturity	Par (000)
BOND (1.9%)		
Bacnotan Consolidated Industries, Inc., 5.50%		
(Cost \$1,750,000)	06/21/04	\$1,750

TOTAL PHILIPPINE SECURITIES

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(Cost \$64,481,958)

-----  
 UNITED STATES SECURITIES (2.0%)  
 -----

COMMERCIAL PAPER (2.0%)

American Express Credit Corp., 1.97%  
 (Cost \$627,000)

07/01/02

627

-----  
 TOTAL UNITED STATES SECURITIES  
 -----

TOTAL INVESTMENTS (100%)

(Cost \$65,108,958) (a)

\$  
=

See Accompanying Notes to Financial Statements

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THE FIRST PHILIPPINE FUND INC.  
 STATEMENT OF ASSETS AND LIABILITIES

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 ASSETS

Investments at value (Cost \$65,108,958) .....

Cash .....

Foreign currency value (Cost \$748,552) .....

Dividends receivable .....

Interest receivable .....

Prepaid expenses .....

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 TOTAL ASSETS .....

-----  
 LIABILITIES

Payable for treasury stock repurchased .....

Advisory fee payable .....

Accrued expenses payable .....

-----  
 TOTAL LIABILITIES .....

-----  
 NET ASSETS

(applicable to 10,188,300 common shares outstanding) .....

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 NET ASSET VALUE PER SHARE

(\$32,622,787/10,188,300) .....

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 Net assets consist of:

Capital Stock Issued .....

Paid-in capital .....

Cost of 1,036,700 shares held in treasury .....

Accumulated net realized loss on investments .....

Net unrealized depreciation on investments, foreign currency holdings  
 and other assets and liabilities denominated in foreign currency .....

-----  
 NET ASSETS .....

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STATEMENT OF OPERATIONS

INVESTMENT INCOME

Dividends (net of taxes withheld \$139,210) .....  
 Interest (net of taxes withheld \$3,423) .....

TOTAL INVESTMENT INCOME .....

EXPENSES

Investment advisory fee .....  
 Trustee fee .....  
 Administration fee .....  
 Legal fee .....  
 Custodian fee .....  
 Audit fee .....  
 Directors fee .....  
 NYSE Listing fee .....  
 Printing .....  
 Insurance .....  
 Transfer agent fee .....  
 Miscellaneous .....

TOTAL EXPENSES .....

NET INVESTMENT LOSS .....

REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS, FOREIGN CURRENCY HOLDINGS  
 AND OTHER ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Net realized gain (loss) on:  
 Security transactions .....  
 Foreign currency transactions .....  
 Net change in unrealized appreciation (depreciation):  
 Investments .....  
 Foreign currency holding and other assets and liabilities denominated in foreign currency .....

Net realized and unrealized losses on investments, foreign currency holdings  
 and other assets and liabilities denominated in foreign currency .....

NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS .....

See Accompanying Notes to Financial Statements

THE FIRST PHILIPPINE FUND INC.  
 STATEMENT OF CHANGES IN NET ASSETS

For the  
 Year Ended  
 June 30, 2002

INCREASE (DECREASE) IN NET ASSETS

Operations:

Net investment loss ..... \$ (514,599)  
 Net realized loss on security transactions ..... (2,512,427)

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Net realized gain (loss) on foreign currency transactions .....	3,745
Net change in unrealized appreciation (depreciation) on investments, foreign currency holdings and other assets and liabilities denominated in foreign currency .....	(3,750,236)
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Net decrease in net assets resulting from operations .....	(6,773,517)
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Capital share transactions:	
Shares repurchased .....	(2,930,465)
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Total decrease in net assets .....	(9,703,982)
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Net assets:	
Beginning of year .....	42,326,769
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End of year (including accumulated net investment loss of \$0 and (\$214,965), respectively) .....	\$32,622,787
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See Accompanying Notes to Financial Statements

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THE FIRST PHILIPPINE FUND INC.  
FINANCIAL HIGHLIGHTS  
(FOR A SHARE OUTSTANDING THROUGHOUT EACH YEAR)

	For the Year Ended June			
	2002	2001	2000	1999
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PER SHARE OPERATING PERFORMANCE				
Net asset value, beginning of period .....	\$ 3.80	\$ 5.24	\$ 9.73	\$
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INCOME FROM INVESTMENT OPERATIONS				
Net investment loss .....	(0.05)	(0.03)	(0.06)	
Net realized and unrealized gains (losses) on investments, foreign currency holdings and other assets and liabilities denominated in foreign currencies .....	(0.65)	(1.56)	(4.43)	
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Net increase (decrease) from investment operations .....	(0.70)	(1.59)	(4.49)	
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LESS DIVIDENDS AND DISTRIBUTIONS				
Distributions from net realized long-term gains .....	--	--	--	
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TOTAL DIVIDENDS AND DISTRIBUTIONS .....	--	--	--	
-----				
SHARES REPURCHASED				
Effect of shares repurchased .....	0.10	0.15	--	
-----				
Increase (decrease) in net asset value .....	(0.60)	(1.44)	(4.49)	
-----				
Net asset value, end of period .....	\$ 3.20	\$ 3.80	\$ 5.24	\$
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PER SHARE MARKET VALUE, END OF PERIOD .....	\$ 2.84	\$ 3.19	\$ 4.06	\$

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TOTAL INVESTMENT RETURN				
Based on market value*	(10.97)%	(21.43)%	(52.90)%	
RATIOS/SUPPLEMENTAL DATA				
Net assets, end of period (in 000's)	\$32,623	\$42,327	\$58,799	\$10
Ratios to average net assets:				
Operating expenses	3.00%	2.38%	1.88%	
Net investment loss	(1.41)%	(0.71)%	(0.86)%	
Portfolio turnover	3.04%	34.71%	14.37%	

See Accompanying Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS -- JUNE 30, 2002

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The First Philippine Fund Inc. (the "Fund") was incorporated in the State of Maryland on September 11, 1989. The Fund is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

1. PORTFOLIO VALUATION: Investments are stated at value in the accompanying financial statements. All equity securities for which market quotations are readily available are valued at the last sales price or lacking any recent sales, at the mean between the current bid and asked prices. Securities that are traded over-the-counter are valued at the mean between the current bid and asked prices. Securities for which market values are not readily available are carried at fair value as determined in good faith by or under the supervision of the Board of Directors. Short-term investments having a maturity of 60 days or less are valued on the basis of amortized cost.
2. INVESTMENT TRANSACTIONS AND INVESTMENT INCOME: Investment transactions are accounted for on the trade date. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes. Interest income is accrued as earned; dividend income is recorded on the ex-dividend date. Dividends and interest income are subject to withholding tax at various rates not exceeding 25% and such tax is recorded at the time when the related income is recorded.
3. TAX STATUS: No provision is made for U.S. Federal income or excise taxes as it is the Fund's intention to continue to qualify as a regulated investment company and to make the requisite distributions to its shareholders which will be sufficient to relieve it from all or substantially all U.S. Federal income and excise taxes. For the year ended June 30, 2002, no U.S. Federal income or excise tax provision was required.

The Fund has a capital loss carry forward in the amount of \$48,194,629, of which \$466,990, \$7,894,664, \$8,691,344, \$26,411,868 and \$4,729,763 are available as a reduction of future net capital gains to be distributed and



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expire in the years ended 2005, 2007, 2008, 2009 and 2010 respectively. It is uncertain whether the Fund will realize these benefits before they expire.

Capital and foreign currency losses incurred after October 31 ("post-October losses") within the taxable year are deemed to arise on the first business day of the Fund's next taxable year. The Fund after October 31, 2001 incurred and will elect to defer net capital losses of \$2,216,120 during the year ended June 30, 2002.

The tax character of net assets at June 30, 2002 was substantially the same as the book character.

4. FOREIGN CURRENCY: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis:

(I) market value of investment securities and other assets and liabilities at the Philippine peso exchange rate as stated on the Philippine Dealing System at the valuation date; and

(II) purchases and sales of investment securities, income and expense at the Philippine peso rate of exchange prevailing on the respective dates of such transactions. Exchange gains or losses are realized upon ultimate receipt or disbursement.

The Fund does not generally isolate the effect of fluctuation in foreign exchange rates from the effect of fluctuations in the market prices of securities held whether realized or unrealized.

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### NOTES TO FINANCIAL STATEMENTS -- JUNE 30, 2002 (CONT'D)

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Realized gains or losses on foreign currency transactions represent net foreign exchange gains or losses from the disposition of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and between amounts of interest, dividends and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid.

The change in unrealized appreciation/depreciation of foreign currency holding and other assets and liabilities denominated in foreign currencies represents the change in the value of the foreign currencies and other assets and liabilities arising as a result of changes in foreign exchange rates.

Foreign security and currency transactions may involve certain conditions and risks not typically associated with those of domestic origin as a result of, among other factors, the level of government supervision and regulation of foreign securities markets and the possibilities of political or economic instability.

5. DISTRIBUTION OF INCOME AND GAINS: The Fund intends to distribute to shareholders, at least annually, substantially all of its net investment income and expects to distribute annually any net capital gains in excess of net capital losses. An additional distribution may be made to the extent necessary to avoid the payment of a 4% Federal excise tax.

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The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with Federal income tax regulations which may differ from generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their Federal tax-basis treatment; temporary differences do not require reclassification. To the extent they exceed net investment income and net realized capital gains for tax purposes, they are reported as distributions of paid-in capital.

As of June 30, 2002, the Fund had temporary book/tax differences primarily attributable to post-October losses and permanent book/tax differences primarily attributable to foreign currency losses and net operating loss. During the year ended June 30, 2002, the Fund decreased accumulated net investment loss by \$725,819 with an offsetting decrease to paid-in-capital of \$725,819. The Fund also decreased accumulated net investment loss by \$3,745 with an offsetting increase to accumulated net realized loss on investments of \$3,745. Net assets were not affected by these changes.

6. REPURCHASE AGREEMENTS: The Fund may enter into repurchase agreements with respect to dollar-denominated debt securities of United States issuers. The Fund's custodian takes possession of collateral pledged for investment in the repurchase agreements. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to maintain the adequacy of the collateral. If the seller defaults, the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

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NOTES TO FINANCIAL STATEMENTS -- JUNE 30, 2002 (CONT'D)

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### B. MANAGEMENT AND INVESTMENT ADVISORY SERVICES

The Fund has entered into an Investment Advisory Agreement for portfolio management services with Clemente Capital, Inc. (the "Investment Adviser") and a Trust Agreement with the Philippine National Bank (the "Trustee") for certain services relating to the Philippine Trust. The Investment Advisory Agreement is approved on an annual basis and provides for the Investment Adviser to receive a fee computed weekly and payable monthly at the annual rate of 1% of the Fund's average weekly net assets. For the year ended June 30, 2002, the Investment Adviser earned \$365,523 from the Fund, of which \$56,715 was payable to the Investment Adviser at June 30, 2002.

PNB Investments Limited (the "Philippine Adviser"), a wholly-owned subsidiary of the Trustee, provides the Investment Adviser with investment advice, research and assistance pursuant to a Research Agreement with the Investment Adviser. For its services, the Philippine Adviser receives from the Investment Adviser a fee at an annual rate of 0.35% of the Fund's average weekly net assets. For the year ended June 30, 2002, the Investment Adviser paid \$127,933 to the Philippine Adviser.

Substantially all of the Fund's assets are invested through and held in the Philippine Trust. Under the Trust Agreement, the Trustee receives a monthly fee at the annual rate of 0.15% of the Fund's average weekly net assets held in the

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Philippine Trust, subject to a minimum fee of \$150,000 for administration of the Philippine Trust. The Trust Agreement remains in effect for the life of the Fund unless terminated in accordance with its terms. For the year ended June 30, 2002, the Trustee earned fees of \$150,000, of which \$37,396 was payable to the Trustee at June 30, 2002.

PFPC Inc. (the "Administrator") provides administrative and accounting assistance to the Fund. Under the Administration Agreement, the Administrator receives a fee payable monthly at an annual rate of 0.10% of the Fund's average weekly net assets, subject to a minimum annual fee of \$124,800. For the year ended June 30, 2002, the Administrator earned fees of \$124,800, of which \$20,515 was payable to the Administrator at June 30, 2002.

The Fund pays each of its Directors who is not a director, officer or employee of the Investment Adviser, the Philippine Adviser or the Trustee an annual fee of \$8,000 plus \$750 for each meeting of the Board or of a committee of the Board attended in person plus certain out-of-pocket expenses. Directors' fees payable at June 30, 2002 were \$11,000, which were included in accrued expenses.

### C. CAPITAL STOCK

The authorized capital stock of the Fund is 25,000,000 shares of common stock \$.01 par value. Of the 10,188,300 shares outstanding at June 30, 2002, Clemente Capital, Inc. owned 6,000 shares.

### D. SHARE REPURCHASE PROGRAM

On May 4, 2001, the Fund commenced a share repurchase program for the purpose of enhancing shareholder value and reducing the discount at which the Fund's shares traded from their net asset value. From that date through June 30, 2002, the Fund repurchased 1,036,700 shares or 9.24% of its Common Stock issued at a weighted average price per share of \$3.07 and a weighted average discount of 10.51% from net asset value per share. For the year ended June 30, 2002, the Fund repurchased 950,400 shares or 8.47% of its Common Stock issued at a weighted average price per share of \$3.02 and a weighted average discount of 10.02% from net asset value per share. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of the foregoing objectives subject to review by the Board of Directors.

### E. PORTFOLIO ACTIVITY

Purchases and sales of securities, other than short-term obligations, aggregated \$1,048,644 and \$2,013,669, respectively, for the year ended June 30, 2002.

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NOTES TO FINANCIAL STATEMENTS -- JUNE 30, 2002 (CONT'D)

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### F. OTHER

The Fund has obtained the approval of the Central Bank for the registration and conversion into pesos of all proceeds of the Fund to be invested in the Philippine securities markets, which ensures repatriation of such investment and the remittance of profits and dividends accruing thereon. Notwithstanding the foregoing, the right of the Fund to repatriate its investments in Philippine

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securities and to receive profits, capital gains and dividends in foreign exchange is subject to the power of the Central Bank, with the approval of the President of the Philippines, to restrict the availability of foreign exchange in the imminence of or during an exchange crisis or in times of national emergency.

There are nationality restrictions on the ownership of certain equity securities of Philippine companies. Based on confirmations which the Fund received from Philippine governmental authorities, the Fund believes that it is permitted to make certain investments through the Philippine Trust that are otherwise available only to Philippine nationals.

At June 30, 2002, 94.4% of the Fund was invested in Philippine securities. Future economic and political developments in that country could adversely affect the liquidity and/or value of the Philippine securities in which the Fund is invested.

### G. SUBSEQUENT EVENT

At the July 25, 2002 Board Meeting, the Board of Directors authorized a shareholder vote on liquidation. Shareholders of record on August 21, 2002 shall be entitled to vote at the Annual Meeting, which will be held on October 31, 2002. Under the Fund's Amended Articles of Incorporation, which have been in effect since inception in 1989, the affirmative vote of 75% of the Fund's outstanding shares of Common Stock will be required to approve the dissolution of the Fund.

In the event that the requisite percentage is not achieved, the Board will consider various alternatives to address the discount.

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### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of  
The First Philippine Fund Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The First Philippine Fund Inc. (the "Fund") at June 30, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at June 30, 2002 by correspondence with the custodian, provide a reasonable basis for our opinion.

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As explained in Note G, the Board of Directors of the Fund has authorized a shareholder vote on liquidation and dissolution of the Fund.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania  
August 5, 2002

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### TAX INFORMATION (UNAUDITED)

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The Fund is required by Subchapter M of the Internal Revenue Code of 1986, as amended, to advise its shareholders within 60 days of the Fund's fiscal year end (June 30, 2002) as to the U.S. Federal tax status of distributions received by the Fund's shareholders during such fiscal year.

Because the Fund's fiscal year is not the calendar year, another notification will be sent in respect of calendar year 2002. The second notification, which will reflect the amount to be used by calendar year taxpayers on their Federal income tax returns, will be made in conjunction with Form 1099-DIV and will be mailed in January 2003. Shareholders are advised to consult their own tax advisers with respect to the tax consequences of their investment in the Fund.

Foreign shareholders will generally be subject to U.S. withholding tax on the amount of their dividend.

Dividends received by tax-exempt recipients (e.g. IRA's and Keoghs) need not be reported as taxable income for U.S. Federal income tax purposes. However, some retirement trusts (e.g. corporate, Keogh and 403(b)(7) plans) may need this information for their annual information reporting.

This information is given to meet certain requirements of the Internal Revenue Code. Shareholders should refer to their Form 1099-DIV to determine the amounts includable on their respective tax returns for 2002.

### SUMMARY OF THE FUND'S DIVIDEND REINVESTMENT PLAN (UNAUDITED)

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The following is a summary of the Fund's Dividend Reinvestment Plan (the "Plan"). Shareholders may participate in the Plan by completing an enrollment card available from American Stock Transfer & Trust Company (the "Plan Agent"), and forwarding it to the address below.

The Fund intends to distribute to shareholders, at least annually, its net investment income from dividends and interest and, to the extent necessary, its net realized capital gains. Pursuant to the Plan, shareholders may elect to have all cash distributions automatically reinvested by the Plan Agent in Fund shares pursuant to the Plan.

If the directors of the Fund declare a dividend from net investment income or a capital gains distribution payable either in the Fund's Common Stock or in cash, participants in the Plan will receive shares of Common Stock, to be issued by the Fund. If the market price per share on the valuation date equals or exceeds net asset value per share on that date, the Fund will issue new shares

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to participants at net asset value or, if the net asset value is less than 95% of the market price on the valuation date, then the Fund will issue such new shares at 95% of the market price. The valuation date will be the dividend or distribution payment date or, if that date is not a trading day on the NYSE, the next preceeding trading day. If the net asset value exceeds the market price of the Fund shares at such time or if the Fund should declare a dividend or distribution payable only in cash, participants in the Plan will be deemed to have elected to receive shares of stock from the Fund valued at the market price on the valuation date. The Fund may not issue shares below net asset value. Accordingly, the Plan Agent, as agent for the participants, will use the amount of the distribution to purchase Fund shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts on, or in any event within 30 days after, the payment date. If, before the Plan Agent has completed its purchases, the market price exceeds the net asset value per share, the average per share purchase price paid by the Plan Agent may exceed net asset value per share, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account, including information for personal tax records. The Plan Agent will provide such confirmations to banks, brokers or nominees which hold shares for others and who are certified by the shareholder as representing the total amount of shares registered in the shareholder's name and held for the account of beneficial owners who are participating in the Plan.

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There is no charge to participants for reinvesting dividends or distributions. The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by the Fund. However, each participant's account will be charged a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends or distributions.

The automatic reinvestment of dividends and distributions will not relieve participants of any income tax which may be payable or required to be withheld on such dividends or distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan as applied to any dividend or distribution paid for such dividend or distribution. The Plan also may be amended or terminated by the Plan Agent upon at least 30 days written notice to all shareholders. Participants may terminate participation in the Plan at any time upon giving written notice 30 days prior to the applicable dividend or distribution payment date. Additional information about the Plan may be obtained by writing American Stock Transfer & Trust Company (the Plan Agent) at 59 Maiden Lane, New York, NY 10007. Attention Shareholder Services: The First Philippine Fund Inc.

REPORT OF THE FUND'S ANNUAL MEETING (UNAUDITED)

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The Fund held its annual meeting on October 25, 2001. At the meeting, the shareholders voted to elect three Class II directors for a three year term: Leopoldo M. Clemente, Jr., John Anthony B. Espiritu, and Benjamin P. Palma Gil. The shareholders also voted to ratify the selection of PricewaterhouseCoopers LLP as the Fund's independent accountants for the year ending June 30, 2002. The

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results of the voting were as follows:

	FOR	AGAINST	WI
Leopoldo M. Clemente, Jr.	8,743,389		5
John Anthony B. Espiritu	8,743,889		5
Benjamin P. Palma Gil	8,743,689		5
Selection of PricewaterhouseCoopers LLP	9,029,545	272,235	

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THE FIRST PHILIPPINE FUND INC.

FUND MANAGEMENT SUMMARY

DIRECTORS AND OFFICERS

NAME, (AGE), ADDRESS AND POSITION(S) WITH COMPANY	TERM OF OFFICE* AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS AND OTHER DIRECTORSHIPS HELD
DISINTERESTED DIRECTORS		
Roberto de Ocampol (56) Director 6760 SGV Building Ayala Avenue Makati City, Metro Manila, Philippines	Class III 2002 Since 1998	President, Asian Institute of M September 1999; Chairman, Phila since June 1999; Chairman, Prim Inc., since June 1999; Secretar of the Philippines, 1993 to Jan ABS-CBN Broadcasting Corp., Ala Technologies (a semiconductor
John Anthony B. Espiritu (39) Director Ritz Tower Makati City Metro Manilla, Philippines	Class II 2004 Since 1998	Managing Director of SynEx Fina Advisors, Inc., Manila, Philipp Chairman and President of EBECO Makati City, Metro Manila, Phil President and Chief Executive O Manila, Philippines from July 1 other offices since 1994; Presi Club, Inc., Manila, Philippines February 2001; Chairman/Executi State Bank, Duarte, California
Joseph A. O'Hare, S.J. (71) Director Fordham University	Class III 2002 Since 1989	President of Fordham University New York City Campaign Finance (re-appointed in 1994 and 1999)

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Bronx, NY 10458

Stephen J. Solarz (62) Director 1120 Bellview Road McLean, VA 22102	Class I 2003 Since 1994	Member, United States House of from 1975 to 1992; President, S (an international consulting fi Counselor, Apco Associates, (a since 1995; Director of Santa F (an oil drilling company) and S (a luggage manufacturer).
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THE FIRST PHILIPPINE FUND INC.

FUND MANAGEMENT SUMMARY (CONT'D)

DIRECTORS AND OFFICERS

NAME, (AGE), ADDRESS AND POSITION(S) WITH COMPANY	TERM OF OFFICE* AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS AND OTHER DIRECTORSHIPS HELD
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INTERESTED DIRECTORS

Lilia C. Clemente <sup>1,2</sup> (61) Director, President and Chief Executive Officer Clemente Capital, Inc. 152 West 57th Street New York, NY 10019	Class III 2002 Since 1989	Chairman and Chief Executive Of Capital, Inc. since 1986; Direc Capital, Inc.
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Leopoldo M. Clemente, Jr. <sup>1,2</sup> (64) Director, Executive Vice President and Managing Director Clemente Capital, Inc. 152 West 57th Street New York, NY 10019	Class II 2004 Since 1989	President and Chief Investment Capital, Inc. since 1987; Presi Strategic Value Fund, Inc. from and Cornerstone Strategic Return April 2000 to April 2001; Direc Capital, Inc.
--	--------------------------------	--

Benjamin P. Palma Gil <sup>2</sup> (50) Director and Chairman 11 Helmcrest Street Aliso Viejo, CA 92656	Class II 2004 Since 1998	President of Philippine National Investments Limited from July 1 Executive Director of Capital S (a financial advisory firm) fro and since January 2000.
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OFFICERS

Santiago S. Cua, Jr. (54) Executive Vice President and	Since 1998	Executive Vice President of Phi Bank since July 1998; Senior Ex
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Managing Director  
Philippine National Bank  
Roxas Boulevard  
Metro Manila, Philippines

Westmont Bank, Manila, Philippines  
July 1998.

Joaquin G. Hofilena (35)  
Vice President and Treasurer  
Clemente Capital, Inc.  
152 West 57th Street  
New York, NY 10019

Since 1996

Portfolio Manager and Investment  
Capital, Inc. since April 1996.

Imelda Singzon (53)  
Vice President  
PNB Investments Limited  
Roxas Boulevard  
Metro Manila, Philippines

Since 1998

Senior Vice President of Philip  
August 1994.

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DIRECTORS AND OFFICERS

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Benjamin P. Palma Gil  
DIRECTOR AND CHAIRMAN  
Lilia C. Clemente  
DIRECTOR, PRESIDENT AND CHIEF EXECUTIVE OFFICER  
Leopoldo M. Clemente, Jr.  
DIRECTOR, EXECUTIVE VICE PRESIDENT AND MANAGING DIRECTOR  
Roberto de Ocampo  
DIRECTOR  
John Anthony B. Espiritu  
DIRECTOR  
Joseph A. O'Hare, S.J.  
DIRECTOR  
Stephen J. Solarz  
DIRECTOR  
Santiago S. Cua, Jr.  
EXECUTIVE VICE PRESIDENT AND MANAGING DIRECTOR  
Joaquin G. Hofilena  
VICE PRESIDENT AND TREASURER  
Imelda Singzon

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VICE PRESIDENT  
Maria Distefano  
ASSISTANT SECRETARY

EXECUTIVE OFFICES  
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152 West 57th Street, New York, NY 10019  
(For latest net asset value and market  
data, please call 212-765-0700 or access  
<http://www.clementecapital.com>.  
For shareholder account inquiries,  
call 1-800-937-5449.)

-----  
INVESTMENT ADVISER  
Clemente Capital, Inc.

-----  
ADMINISTRATOR  
PFPC Inc.

-----  
TRANSFER AGENT AND REGISTRAR  
American Stock Transfer & Trust Company

-----  
CUSTODIAN  
Brown Brothers Harriman & Co.

-----  
LEGAL COUNSEL  
Fulbright & Jaworski L.L.P.

-----  
INDEPENDENT ACCOUNTANTS  
PricewaterhouseCoopers LLP

SUMMARY OF GENERAL INFORMATION

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THE FUND

The First Philippine Fund Inc. is a closed-end investment company whose shares trade on the New York Stock Exchange. The Fund seeks long-term capital appreciation primarily through investment in equity securities of Philippine companies. The Fund is managed by Clemente Capital, Inc.

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SHAREHOLDER INFORMATION

Daily market prices for the Fund's shares are published in the New York Stock Exchange Composite Transactions section of most news-papers under the

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designation "FtPhil". The Fund's New York Stock Exchange trading symbol is FPF. Net asset value (NAV) and market price information about The First Philippine Fund Inc. shares are published each Monday in The Wall Street Journal, The New York Times and in other newspapers. For general information visit us at our web site <http://www.clementecapital.com>. For shareholder account inquiries call 1-800-937-5449.

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DIVIDEND REINVESTMENT PLAN

Through its voluntary Dividend Reinvestment Plan, shareholders of The First Philippine Fund Inc. may elect to receive dividends and capital gains distributions in the form of additional shares of the Fund.

This report, including the financial information herein, is transmitted to the shareholders of the First Philippine Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase at market prices from time to time shares of its common stock in the open market.

[FIRST PHILIPPINE LOGO OMITTED]

ANNUAL REPORT

JUNE 30, 2002