

# STATEMENT ON CORPORATE GOVERNANCE

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# STATEMENT ON CORPORATE GOVERNANCE

## GOVERNANCE FRAMEWORK

The Company is committed to a policy of transparency and full disclosure in its business operations and its relationships with its shareholders and regulators. It has complied throughout the year with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) issued by The Stock Exchange of Hong Kong Limited.

**BOARD OF DIRECTORS** The Company is controlled through the Board of Directors which comprises 10 Directors, of whom six are Non-executive Directors. The biographies of the Directors, together with senior management, are set out on pages 12 and 13.

The Board meets formally at least four times a year to review operational performance, resolve funding issues, monitor the implementation of strategy and any other significant matters that affect the operations of the Group. The Executive Directors are responsible for the day-to-day management of the Company’s operations. In addition, there are regular meetings with the senior management of subsidiary and associated companies, at which operating strategies and policies are formulated and communicated.

As a decentralized organization in which local management have substantial autonomy to run and develop their businesses, the Group views well developed reporting systems and internal controls as essential. The Board of Directors plays a key role in the implementation and monitoring of internal financial controls. Their responsibilities include:

- Regular board meetings focusing on business strategy, operational issues and financial performance.
- Active participation on the Boards of subsidiary and associated companies.
- Approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities.
- Monitoring the compliance with applicable laws and regulations, and also with corporate governance policies.
- Monitoring the quality, timeliness, and content of internal and external reporting.

There were 10 board meetings during the year and those attending were as set out below:

	Number of meetings attended
<b>EXECUTIVE DIRECTORS</b>	
Manuel V. Pangilinan	8
Michael J. A. Healy	10
Ronald A. Brown	10
Edward A. Tortorici	7
James C. Ng (resigned on 20 March 2001)	2 <sup>(i)</sup>
David G. Eastlake (resigned on 19 April 2001)	4 <sup>(ii)</sup>
Ricardo S. Pascua (resigned on 31 December 2001)	3 <sup>(iii)</sup>
<b>NON-EXECUTIVE DIRECTORS</b>	
Sutanto Djuhar	–
Tedy Djuhar	–
Ibrahim Risjad	–
Anthoni Salim	7
<b>INDEPENDENT NON-EXECUTIVE DIRECTORS</b>	
Edward K. Y. Chen, CBE, JP	9
David W. C. Tang, OBE	6

(i) Prior to Mr Ng’s resignation, there were two board meetings.

(ii) Prior to Mr Eastlake’s resignation, there were four board meetings.

(iii) Prior to Mr Pascua’s resignation, there were 10 board meetings.

Directors who retire may offer themselves for re-election. Non-executive Directors serve for a term of one year, and each is subject to re-election at the Company’s annual general meeting.

**REMUNERATION  
COMMITTEE  
AND POLICY**

No Director has a service contract with the Company that is not determinable within one year without payment of compensation, other than statutory compensation.

**AUDIT COMMITTEE** The Company's Audit Committee is composed of the two independent Non-executive Directors. The written terms of reference which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. Neither member of the Committee has any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the business. The Audit Committee reports directly to the Board of Directors and reviews matters within the purview of audit, such as internal controls and financial reporting matters, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly, at least four times during the year, with the Company's senior management and its external auditors to discuss the audit process and accounting issues, and review the effectiveness of internal controls and risk evaluation. Special meetings are also convened, where appropriate, to review significant financial or internal control issues. The Audit Committee also performs an independent review of the interim and annual Financial Statements and of information included in circulars to shareholders.

The remuneration of Executive Directors and senior executives is determined annually by the Executive Chairman and certain Non-executive directors who are advised by compensation and benefits consultants. The Executive Chairman's remuneration is subject to review by Non-executive Directors representing the major shareholder. Non-executive Directors' fees and emoluments are determined annually by the Executive Chairman. Details of Directors' remuneration for the year are set out in Note 29(A) to the Financial Statements.

The remuneration of senior executives, including Executive Directors, consists of the following:

**SALARY AND BENEFITS** Salary reflects an executive's experience, responsibility and market value. Increases are based on effective management of the Company and on increased responsibility. Benefits principally comprise housing allowance, educational support and health care, and are consistent with those provided by comparable companies.

**BONUS AND LONG-TERM INCENTIVES** Bonuses are based on the achievement of individual performance targets, and do not necessarily correlate with annual profit movements. Long-term incentives comprise monetary payments and/or share options that link reward to the achievement of pre-determined objectives. The value of the long-term incentive offered to each executive is related to job grade and contribution to the management of the business. Long-term monetary incentive awards are disclosed once vested and paid, and are apportioned over the performance cycle.

**FEES** Fees are paid to two independent Non-executive Directors in accordance with the Company's Memorandum of Association and Bye-laws.

**PENSION CONTRIBUTIONS** The Company operates a defined contribution scheme, in respect of which contributions are determined on the basis of basic salaries and length of service.

**SHARE OPTIONS** Share options are granted to Executive Directors and senior executives under the share option scheme approved by shareholders at the 1999 Annual General Meeting (AGM).

## COMMUNICATIONS WITH SHAREHOLDERS

Under the current share option scheme, the Board of Directors can grant to full-time executives of the Company options to subscribe in aggregate for shares representing up to 10 per cent of the issued share capital of the Company from time to time. All outstanding options are exercisable within 10 years of their various dates of issue.

The aggregate number of options awarded, individual entitlements and option exercise prices were determined by a Special Compensation Committee of the Board of Directors pursuant to Chapter 17 of the Listing Rules.

First Pacific encourages an active and open dialogue with all of its shareholders; private and institutional, large and small. The Board of Directors acknowledges that its role is to represent and promote the interests of shareholders and that its members are accountable to shareholders for the performance and activities of the Company. As such First Pacific is always responsive to the views and requests of its shareholders.

The formal channels of communication with shareholders are principally through the Annual and Interim Reports and the AGM. The Annual and Interim Reports seek to communicate, both to shareholders and the wider investment community, developments in the Company's businesses. In addition, the Annual Report sets out strategic goals for the coming year and management's performance against predetermined objectives are reported and assessed. All of these initiatives are designed to better inform shareholders and potential investors about the Company's activities and strategic direction.

The AGM is the principal forum for formal dialogue with shareholders, where the Board is available to answer questions about specific resolutions being proposed at the meeting and also about the Group in general. In addition, where appropriate, the Company convenes Special General Meetings to approve transactions in accordance with the Listing Rules and the Company's corporate governance procedures. These provide further opportunities for shareholders to comment and vote on specific transactions.

In order to promote effective communication, outside of the traditional methods of financial reports and press releases, the Company also maintains a website ([www.firstpacco.com](http://www.firstpacco.com)) which includes past and present information relating to the Group and its businesses.

By Order of the Board

**MANUEL V. PANGILINAN**

Executive Chairman

4 March 2002