

STATEMENT ON CORPORATE GOVERNANCE

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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 Listing Rules.

BOARD OF DIRECTORS The Company is controlled through the Board of Directors which comprises 10 Directors, of whom five are Executive and five are Non-executive Directors, the latter also including two Independent Directors. The biographies of the Directors, and of the senior executives, are set out on pages 5 and 6.

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, led by the Executive Chairman, 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.

During the past year, there were five Board meetings and those Directors who attended are set out below.

	Number of meetings attended
EXECUTIVE DIRECTORS	
Manuel V. Pangilinan (Executive Chairman)	5
Anthoni Salim	4
Michael J. A. Healy	5
Ronald A. Brown	5
Edward A. Tortorici	5
NON-EXECUTIVE DIRECTORS	
Sutanto Djuhar	–
Tedy Djuhar	3
Ibrahim Risjad	1
INDEPENDENT NON-EXECUTIVE DIRECTORS	
Prof. Edward K. Y. Chen, CBE, JP	5
David W. C. Tang, OBE	5

At the Company's AGM, it is the Company's policy that all Directors retire and offer themselves for re-election, on an annual basis. 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. Reporting to the Board of Directors, the Audit Committee reviews matters within the purview of audit, such as Financial Statements and internal controls, to protect the interests of the Company's shareholders. The Audit Committee also performs an independent review of the interim and annual Financial Statements.

The Audit Committee meets regularly with the Company's 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. Three meetings were held during the 2002 financial year.

INDEPENDENT BOARD COMMITTEE Where there are matters involving connected transactions, an Independent Board Committee, comprising wholly the Independent Non-executive Directors, will be established and independent experts will be appointed to advise shareholders on how to vote.

OTHER DEVELOPMENTS In line with the HKSE's ongoing efforts to strengthen the corporate governance practices in Hong Kong and to align with the best current international practices, the Company will review its existing practices and implement, as considered appropriate, the new practices to be adopted by the HKSE before 30 June 2003. These include:

- To adopt a Board level Nomination Committee to establish recruitment, selection and nomination strategies to attract the right individuals to become Independent Directors.
- To appoint a new Independent Non-executive Director in 2003, to increase the total number of Independent Non-executive Directors to three, who will comprise approximately one-third of the current Board. The newly appointed Independent Non-executive Director should possess appropriate professional qualifications or experience in financial matters and will also be appointed as a third member of the Audit Committee.
- To separate the roles of the Chairman and Chief Executive Officer.
- To obtain shareholders' approval at the AGM for any Directors' service contracts with a duration exceeding three years or that either have a notice period exceeding one year or require payment of compensation exceeding one year's remuneration upon termination of that contract.
- To promote transparency and ensure a timely flow of relevant information to the market, the Company is considering the early adoption of quarterly reporting, which is to be mandatory in 2005.
- To disclose Directors' remuneration on an individual and named basis, each year.

The Company's Directors are fully aware of the importance of good corporate governance practices and will continue to strengthen their commitments to achieve high standards of board and corporate governance standards and practices.

REMUNERATION COMMITTEE AND POLICY

Remuneration of Executive Directors and senior executives is determined by the Executive Chairman who is advised by compensation and benefits consultants. The Executive Chairman's remuneration is subject to the review of the Non-executive Directors representing the major shareholder. The fees and emoluments of Non-executive Directors are determined by the Executive Chairman based on the recommendations from compensation and benefits consultants. The Company will restructure the Remuneration Committee to be composed of at least a majority of Independent Non-executive Directors to make recommendations to the Board regarding the remuneration of the Executive Directors.

Starting from 2003, in implementing best corporate practice that will promote transparency on remuneration matters, the Company will disclose Directors' remuneration on an individual and named basis. 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 are apportioned over the performance cycle. As at 31 December 2002, the Company had no outstanding long-term incentive plans, as the share options then outstanding were cancelled on 7 February 2003.

FEES Fees are paid to two Independent Non-executive Directors in accordance with the Company's Memorandum of Association and Bye-laws. It is the Company's policy that it pays no fees to the Company's Executive Directors.

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 Non-Qualified Stock Option Plan and the Incentive Stock Option Plan (which expired on 16 June 1999), and the existing share option scheme approved by shareholders at the 1999 AGM.

Under the existing 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, after which time the options expire to the extent that they are not exercised.

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

On 7 February 2003, the Company's Board of Directors approved the cancellation of all the outstanding share options of the Company. The Directors will consider alternative long-term incentive arrangements for senior management, in 2003.

COMMUNICATIONS WITH SHAREHOLDERS

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 communicating with shareholders are the annual and interim reports, press releases, published announcements, shareholders' circulars 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 the traditional methods of financial reports and press releases, the Company also maintains a website (www.firstpacco.com) which includes past and present information relating to the Group and its businesses.

On behalf of the Board of Directors

MANUEL V. PANGILINAN

Executive Chairman

17 April 2003