

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. 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 11 Directors. At 31 December 2003, three of the Directors are Executive and eight of the Directors are Non-executive, of whom three are Independent. The biographies of the Directors, and of the senior executives, are set out on pages 6 and 7.

The Board of Directors meets formally at least four times a year to review operational performance and financial plans, monitor the implementation of strategy and any other significant matters that affect the operations of the Group. The Executive Directors, led by the Managing Director and Chief Executive Officer, 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 2003, there were six board meetings and those Directors who attended are set out below.

	Number of meetings attended
CHAIRMAN	
Anthoni Salim	3
EXECUTIVE DIRECTORS	
Manuel V. Pangilinan (Managing Director and Chief Executive Officer)	5
Edward A. Tortorici	5
Robert C. Nicholson (appointed as Independent Non-executive Director on 2 June 2003 and assumed the role of Executive Director with effect from 27 November 2003)	2 ⁽ⁱ⁾
Michael J. A. Healy (resigned on 29 May 2003)	3 ⁽ⁱⁱ⁾
Ronald A. Brown (resigned on 29 May 2003)	3 ⁽ⁱⁱ⁾
NON-EXECUTIVE DIRECTORS	
Sutanto Djuhar	–
Tedy Djuhar	4
Ibrahim Risjad	–
Benny S. Santoso (appointed on 2 June 2003)	2 ⁽ⁱ⁾
INDEPENDENT NON-EXECUTIVE DIRECTORS	
Prof. Edward K. Y. Chen, CBE, JP, G.B.S.	6
David W. C. Tang, OBE	4
His Excellency Albert F. Del Rosario (appointed on 2 June 2003)	2 ⁽ⁱ⁾

(i) After the appointments of Mr Nicholson, Mr Santoso and His Excellency del Rosario, there were two board meetings.

(ii) Prior to the resignations of Mr Healy and Mr Brown, there were three board meetings.

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Directors' Service Contracts

Mr Pangilinan has a service contract with the Company expiring on 31 December 2005.

Mr Tortorici has a service contract with the Company expiring on 31 December 2007.

Apart from the foregoing, no Director has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Audit Committee

The Audit Committee's written terms of reference, which describe its authority and duties, are regularly reviewed and updated by the Board of Directors. 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. Two meetings were held during the 2003 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 financial advisers will be appointed to advise shareholders on how to vote.

Other Developments

In January 2003, HKSE published the Consultation Conclusions on Proposed Amendments to the Listing Rules Relating to Corporate Governance Issues. HKSE originally intended to implement the proposals and amend the Listing Rules by the end of the first half of 2003. However, to ensure that the amendments will properly address current corporate governance issues, enhance further the transparency of listed issuers, and secure clarity to the Listing Rules, HKSE has re-examined the policy issues relating to some of the more salient aspects of the amendments to Listing Rules. The amendments to the Listing Rules will take effect on 31 March 2004 but subject to certain transitional arrangements.

Due to the uncertainties of the implementation of the amendments to the Listing Rules, the Company has deferred the implementation of the following practices to 2004.

- To appoint a new Independent Non-executive Director who possess appropriate professional qualifications or experience in financial matters, and will also be appointed as the third member of the Audit Committee.
- To disclose Directors' remuneration on an individual and named basis.

Nevertheless, the Company has implemented the following new practices during 2003.

- Separated the roles of the Chairman and Chief Executive Officer.
- Appointed Mr. Robert C. Nicholson as the new Independent Non-executive Director and Audit Committee member on 2 June 2003. However, on 27 November 2003, Mr. Nicholson assumed the role of Executive Director and hence resigned as member of the Audit Committee accordingly.
- Adopted a Board level Nomination Committee, comprises a majority of Independent Non-executive Directors, to establish recruitment, selection and nomination strategies to attract the right individuals to become Executive or Non-executive Directors.
- Established a Remuneration Committee, comprises a majority of Independent Non-executive Directors, with details as described in the "Remuneration Committee and Policy" section below.

In line with HKSE's ongoing efforts to strengthen the corporate governance practices in Hong Kong and to align with the best current international practices, the Company's Directors will continue to strengthen their commitments to achieve high standards of corporate governance standards and practices.

Philippine Ombudsman

Last year's annual report included a description of the circumstances concerning the 2001 investigation of Mr. Manuel V. Pangilinan, Managing Director and Chief Executive Officer of the Company, by the Philippine Ombudsman. In September 2001 the Ombudsman concluded that there was insufficient evidence against Mr. Pangilinan. The Company is not aware that any further investigation has taken place since that time.

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REMUNERATION COMMITTEE AND POLICY

In August 2003, the Company established a Remuneration Committee. The Committee will make recommendations to the Board of Directors regarding the remuneration of the Executive Directors, senior executives and the fees and emoluments of Non-executive Directors based on advice from compensation and benefits consultants. 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.

Fees

Fees are paid to 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 as part of the long-term incentive arrangements. After the cancellation of all the outstanding share options of the Company on 7 February 2003, no further share options were granted.

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, 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

Managing Director and Chief Executive Officer

1 March 2004