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Governance Framework

The Company is committed to a policy of transparency and full disclosure in its business operations. In November 2004, HKSE issued its “Code on Corporate Governance Practices” and “Corporate Governance Report” (the Stock Exchange Code), which came into effect on 1 January 2005, and replaced the “Code of Best Practice” as set out in Appendix 14 of the Listing Rules. Throughout the year ended 31 December 2004, the Company complied with the Code of Best Practice. In addition, the Company’s Board of Directors has approved the adoption of its own Code on Corporate Governance Practices on 14 March 2005, which is based on the Stock Exchange Code.

Board of Directors

The Company is led and controlled through the Board of Directors which comprises 12 Directors and they are collectively responsible for promoting the success of the Company by directing and supervising the Company’s affair. The Board of Directors has a balance of skill and experience appropriate for the requirements of the Group’s businesses. At 31 December 2004, three of the Directors are Executive and nine of the Directors are Non-executive, of whom three are Independent. The Company has received annual confirmations of independence from Graham L. Pickles, Prof. Edward K. Y. Chen and David W. C. Tang and considers them to be independent. Non-executive Directors have the same duties of care and skill and fiduciary duties as Executive Directors. The biographies of the Directors, and of the senior executives, are set out on pages 8 to 12.

The Board of Directors meets formally at least four times a year to review operational performance and financial plans, monitors the implementation of strategy and any other significant matters that affect the operations of the Group, and approves matters specifically reserved to the Board of Directors for its decision. For all of such meetings, adequate and appropriate information, in the form of agendas, board papers and related materials, are prepared and provided to the Directors prior to the scheduled dates for the Board meeting in a timely manner. 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.

CORPORATE GOVERNANCE REPORT

During 2004, there were five board meetings and those Directors who attended are set out below.

	Number of meetings attended
Chairman	
Anthoni Salim	-
Executive Directors	
Manuel V. Pangilinan (Managing Director and Chief Executive Officer)	5
Edward A. Tortorici	5
Robert C. Nicholson	5
Non-executive Directors	
His Excellency Albert F. del Rosario (reappointed as Non-executive Director on 24 May 2004)	5
Benny S. Santoso	5
Sutanto Djuhar	-
Tedy Djuhar	5
Ibrahim Risjad	-
Independent Non-executive Directors	
Graham L. Pickles (appointed on 24 May 2004)	3 ⁽ⁱ⁾
Prof. Edward K.Y. Chen, GBS, CBE, JP	5
David W. C. Tang, OBE, Chevallier de L'Ordre des Arts et des Lettres	3

(i) After the appointment of Mr. Pickles, there were three board meetings held.

Audit Committee

The Company's Audit Committee, established in compliance with Rule 3.21 of the Listing Rules, comprises the three independent Non-executive Directors of the Company. In compliance with requirements of Rules 3.10(1) and (2) of the Listing Rules, the Company appointed Mr. Pickles who possess appropriate professional qualifications and experience in financial matters, as a new Independent Non-executive Director and also the third member and chairman of the Audit Committee on 24 May 2004. Upon Mr. Pickles' appointment, he was given a comprehensive, formal and tailored induction by the Company to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

The Audit Committee's written terms of reference, which describe its authority and duties, are regularly reviewed and updated by the Board of Directors. 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 reviews the effectiveness of internal controls and risk evaluation. Special meetings are also convened, where appropriate, to review significant financial or internal control issues. During 2004, there were five Audit Committee meetings and those Audit Committee members who attended are set out below.

	Number of meetings attended
Graham L. Pickles	3 ⁽ⁱ⁾
Prof. Edward K. Y. Chen, GBS, CBE, JP	5
David W. C. Tang, OBE, Chevalier de L'Ordre des Arts et des Lettres	4

(i) After the appointment of Mr. Pickles on 24 May 2004, there were three Audit Committee meetings held.

Remuneration Committee

The Remuneration Committee, which comprises Mr. Pangilinan (who also acts as the chairman of it), Prof. Chen and Mr. Tang, has specific written terms of reference which deal clearly with its authority and duties. The Remuneration Committee makes 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. No Director or any of his associates is involved in deciding his own remuneration. One meeting was held during the 2004 financial year to approve the issue of share options under the Company's Share Option Scheme and which was attended by Prof. Chen and Mr. Tang.

Nomination Committee

The Nomination Committee, which comprises Mr. Salim (who also acts as the chairman of it), Ambassador del Rosario, Prof. Chen and Mr. Tang, has specific written terms of reference which deal clearly with its authority and duties. The committee performs the following duties:

- review the structure, size and composition of the Board of Directors on a regular basis and make recommendations to the Board of Directors regarding any proposed changes;
- establish recruitment, selection and nomination strategies to attract the right individuals to become Executive or Non-executive Directors; and
- make recommendations to the Board of Directors on relevant matters relating to the appointment or re-appointment of Directors and succession of planning for Directors.

The selection of individuals to become Executive or Non-executive Directors are based on assessment of their professional qualifications and experience. No meeting was held during the 2004 financial year.

Independent Board Committee

Where there are matters involving connected or continuing connected transactions, so far as required under the Listing Rules, an Independent Board Committee, comprising wholly the Independent Non-executive Directors, will be established with specific written terms of reference which deal clearly with the Independent Board Committee's authority and duties and independent financial advisers will be appointed to provide advices to the Independent Board Committee. When appropriate, the Independent Board Committee will then advise shareholders on how to vote after considering advices (if any) from independent financial advisers.

Director's Service Contract

Mr. Tortorici has a service contract with the Company expiring on 31 December 2007. Apart from that, no Directors 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.

CORPORATE GOVERNANCE REPORT

Model Code for Securities Transactions

Having made specific enquiry, all of the Directors have complied with the Company's code of conduct regarding directors' securities transactions, prepared and adopted on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Listing Rules.

Financial Reporting

In order to enable the Directors to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects to its shareholders, financial reports with adequate information and explanations are prepared by the Company's management to the Board of Directors on a timely and regular basis.

Directors' Responsibility for the Financial Statements

The Companies Ordinance requires the Directors to prepare Financial Statements for each financial year that give a true and fair view of the Company's state of affairs as at the end of the financial year and of its profit or loss for the year then ended. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them on a consistent basis, making judgements and estimates that are prudent, fair and reasonable;
- state the reasons for any significant departure from the relevant accounting standards; and
- prepare the Financial Statements on a going concern basis, unless it is not appropriate to presume that the Company will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Voting by Poll

The Company's shareholders are adequately informed of the procedures for and their rights to demand voting by poll in shareholders' meetings at which their approval are sought through disclosure in the Company's circulars.

Other Developments

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

The Company adopted its own Code on Corporate Governance Practices on 14 March 2005, which is based on the provisions contained in the Stock Exchange Code. The Company's Code will cover all of the relationships and responsibilities of the external and internal corporate governance stakeholders in a comprehensive and structured way. The Company is in compliance with the Code Provisions on the separation of the roles of the Chairman and Chief Executive Officer of the Company. The Company has also adopted its own Model Code for Securities Transactions by Directors, on terms no less exacting than the required standard as set out in the Model Code under Appendix 10 of the Listing Rules. The Company will institute changes to implement the re-election of its current non-executive and independent non-executive directors for a fixed term and the introduction of retirement by rotation for all directors (including the executive directors) by proposing to amend its Bye-laws in the forthcoming AGM.

Remuneration Policy

Details of Directors' remuneration for the year are set out in Note 31(A) to the Financial Statements. The remuneration of senior executives, including 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 they are available to the executives.

Fees

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 certain Directors and senior executives as part of the long-term incentive arrangements. Details of the Company's share options granted to Directors and senior executives for the year are set out in Note 31(C) to the Financial Statements.

Communications with Shareholders

First Pacific encourages an active and open dialogue with all of its shareholders; private and institutional, large and small. The 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.

CORPORATE GOVERNANCE REPORT

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.

Connected and Continuing Connected Transactions

Significant connected and continuing connected transactions under Chapter 14A of the Listing Rules entered by the Group during the year are disclosed as follows.

On 7 September 2004, Metro Pacific sold 10.33 per cent of Landco, Inc. to AB Holdings Corporation (ABH) for a consideration of Pesos 60.5 million (US\$1.1 million). ABH is a connected person of the Group according to the Listing Rules definition as one of its directors, Mr. Alfred Xerez-Burgos (who is also a director of Metro Pacific), is directly or indirectly interested in more than 30 per cent of Landco, Inc. Following the disposal, Metro Pacific's interest in Landco, Inc. was reduced from approximately 61.33 per cent to approximately 51.0 per cent. In addition, Landco, Inc. obtained a term loan from ABH in an amount of Pesos 150 million (US\$2.7 million) and provided financial assistance through security by way of a mortgage over certain real estate of Landco, Inc. in an amount of approximately Pesos 302 million (US\$5.4 million) for ABH to obtain a term loan from an independent Philippine commercial bank. The Company has published a paid announcement dated 14 September 2004 which set out the details of this transaction.

Apart from the above, in the context of an overall review of the Group's corporate governance regime and reporting lines, which was initiated by the Company's senior management in 2004, the Company has undertaken a comprehensive Group wide review designed to elicit detailed information in relation to all connected or potentially connected transactions under the Listing Rules involving the Company or its subsidiary companies. As a result of that review, the Company identified the following continuing connected transactions in respect of the financial year ended 31 December 2004, involving Indofood or its subsidiary companies, which should have been previously disclosed to shareholders at the time of agreement signed under the Listing Rules:

- (A) A series of related continuing connected transactions (as set out on page 43) relating to Indofood's noodle business, in an aggregate amount of approximately US\$14.8 million. These transactions principally relate to the provision of raw materials or finished and packaging products, the provision of related technical services and the licensing of related trademarks to connected persons.
- (B) A series of related continuing connected transactions (as set out on page 44) relating to Indofood's flour business carried on by its Bogasari Flour Mills division, in an aggregate amount of approximately US\$5.6 million. These transactions principally relate to the provision or purchase of raw materials or finished and packaging products and purchase of refined flour by connected persons.
- (C) A series of related continuing connected transactions (as set out on page 45) relating to Indofood's distribution division, in an aggregate amount of approximately US\$15.4 million. These transactions principally relate to the distribution by Indofood's subsidiary company, PT Indomarco Adi Prima, of biscuits, foodstuffs, beverages and other consumer products for or through connected persons.
- (D) A series of continuing financing arrangements involving connected persons (as set out on page 46), in an aggregate amount of approximately US\$7.4 million on the basis of the 2004 year end balance, or US\$10.3 million if the maximum outstanding balance during the financial year ended 31 December 2004 is used.

The details of those continuing connected transactions required to be specified by Rule 14A.45 of the Listing Rules are set out below:

A. Transactions relating to the Noodle Business of the Indofood Group

Parties to the agreement/arrangement					
Name of entity of the group	Name of connected party and relationship between the parties	Nature of agreement/arrangement	Period covered by the agreement/arrangement		Transaction amount for the year ended 31 December 2004 (US\$ millions)
			From	To	
PT Indofood Sukses Makmur Tbk (ISM) – Food Ingredients Division (ISM – FID)	De United Food Industries Ltd. (DUFIL), an associate of the Salim Family	Sales and supply of noodle seasonings from ISM – FID to DUFIL	March 2004	March 2005	3.1
PT Ciptakemas Abadi (CKA)	DUFIL, an associate of the Salim Family	Sales and supply of packaging materials from CKA to DUFIL for the production of instant noodles	March 2004	31 March 2005	1.3
ISM	DUFIL, an associate of the Salim Family	Trademark licensing for the non-exclusive use by DUFIL of the "Indomie" trademark owned by ISM in the Nigerian market	15 December 1998	Shall remain valid unless terminated by either party	0.6
PT Prima Inti Pangan Sejati (PIPS)	DUFIL, an associate of the Salim Family	Technical services agreement whereby PIPS provides technical assistance to DUFIL in connection with the latter's production of instant noodles in Nigeria	15 December 1998	14 December 2008	0.2
ISM – FID	Pinehill Arabian Food Ltd. (Pinehill), an associate of the Salim Family	Sales and supply of noodle seasonings from ISM – FID to Pinehill	March 2004	31 March 2005	6.4
CKA	Pinehill, an associate of the Salim Family	Sales and supply of packaging materials from CKA to Pinehill for the production of instant noodles	March 2004	31 March 2005	1.9
ISM	Pinehill, an associate of the Salim Family	Trademark licensing for the non-exclusive use by Pinehill of the "Indomie" trademark owned by ISM in the Saudi Arabian and Middle East markets	1 February 1995	5 years, automatically extended for the same period unless terminated by either party	0.4
PIPS	Pinehill, an associate of the Salim Family	Technical services agreement whereby PIPS provides technical assistance to Pinehill in connection with the latter's instant noodle manufacturing operations in Saudi Arabia and the Middle East	1 February 1995	Shall remain valid unless terminated by either party	0.9
Aggregate transaction amount					14.8

CORPORATE GOVERNANCE REPORT

B. Transactions relating to the Flour Business of the Indofood Group

Parties to the agreement/ arrangement					
Name of entity of the group	Name of connected party and relationship between the parties	Nature of agreement/ arrangement	Period covered by the agreement/arrangement		Transaction amount for the year ended 31 December 2004 (US\$ millions)
			From	To	
CKA	PT Prima Aneka Berjaya, (PAB), an associate of the Salim Family	Sales and supply of flexible packaging materials from CKA to PAB for the manufacture of biscuit products	March 2004	31 March 2005	0.6
ISM – Bogasari Flour Mills Division (ISM Bogasari)	PAB, an associate of the Salim Family	Sales and supply of flour from ISM Bogasari to PAB for the production of biscuit products	March 2004	31 March 2005	0.9
PT Intiboga Sejahtera (IBS)	PAB, an associate of the Salim Family	Sales and supply of margarine and shortenings from IBS to PAB for the manufacture of biscuit products	March 2004	31 March 2005	0.4
PT Salim Ivomas Pratama and its subsidiary companies (SIMP)	PAB, an associate of the Salim Family	Sales and supply of cooking oil from SIMP to PAB for the manufacture of biscuit products	March 2004	31 March 2005	0.2
PT Inti Abadi Kemasindo (IAK)	PT Tarumatex (“Tarumatex”), an associate of the Salim Family	Sales and supply of grey fabric from Tarumatex to IAK for the production of calico bags	March 2004	31 March 2005	1.6
ISM Bogasari – Surabaya	Tarumatex, an associate of the Salim Family	Sales and supply of calico bags from Tarumatex to ISM Bogasari	March 2004	31 March 2005	1.9
Aggregate transaction amount					5.6

C. Transactions relating to the Distribution Business of the Indofood Group

Parties to the agreement/ arrangement					
Name of entity of the group	Name of connected party and relationship between the parties	Nature of agreement/ arrangement	Period covered by the agreement/arrangement		Transaction amount for the year ended 31 December 2004 (US\$ millions)
			From	To	
PT Indomarco Adi Prima (IAP)	PAB, an associate of the Salim Family	Distribution of PAB's biscuit products by IAP	1 April 2004	31 March 2005	6.4
IAP	PT Lion Superindo ("LS"), an associate of the Salim Family	IAP distributes various consumer products to LS	March 2004	31 March 2005	4.3
IAP	PT Buana Distrindo ("BD"), an associate of the Salim Family	As a sub-distributor of BD, IAP purchases Pepsicola and tea beverage products for sale in trade outlets in Indonesia	2 January 2004	31 December 2004	4.7
Aggregate transaction amount					15.4

D. Transactions relating to the Continuing Financing Arrangements

Parties to the agreement/ arrangement					
Name of entity of the group	Name of connected party and relationship between the parties	Nature of agreement/ arrangement	Period covered by the agreement/arrangement		Transaction amount for the year ended 31 December 2004 (US\$ millions)
			From	To	
ISM	PAB, an associate of the Salim Family	Financing to PAB			
		– Short-term (1 year)	30 December 2004	30 December 2005	7.4 ⁽ⁱ⁾ / 7.4 ⁽ⁱⁱ⁾
		– Long-term (2 years)	30 December 2004	30 December 2006	
ISM	PT Pepsicola Indobeverages (PI), an associate of the Salim Family	Financing to PI	1 January 2004	31 December 2004	– ⁽ⁱ⁾ / 2.9 ⁽ⁱⁱ⁾
Aggregate transaction amount					7.4 ⁽ⁱ⁾ / 10.3 ⁽ⁱⁱ⁾

(i) Represents year-end balance including both principal and accrued interest receivable.

(ii) Represents maximum balance during the year.

Following the discovery of those transactions, the Company requested its auditors, Ernst & Young, to assist senior management of the Company and Indofood and the Independent Non-executive Directors of the Company to conduct an examination of those transactions and all other continuing connected transactions which are not discloseable under Chapter 14A of the Listing Rules in accordance with an available exemption from the disclosure requirements under that Chapter.

Having completed that review, the Independent Non-executive Directors of the Company have concluded that each continuing connected transaction has been entered into:

- in the ordinary and usual course of business of the Company, except for the Continuing Financing Arrangements referred to in D above, which the Listing Rules state cannot be in the ordinary and usual course of business of a company which is not a banking company;
- either on normal commercial terms or, in those instances where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Indofood than terms available to or from (as appropriate) independent third parties;
- in accordance with the relevant agreement governing them, or the relevant written memorandum recording their terms, subject to the limited number of exceptions set out below, as referred to in the letter from Ernst & Young referred to below; and
- on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young has provided a letter to the Board (with a copy to HKSE) confirming that, subject to a limited number of exceptions which have been drawn to the attention of the Board, the continuing connected transactions have been carried out in the manner stated in Rule 14A.38 of the Listing Rules. The limited exceptions contained in Ernst & Young's letter include (i) certain connected party's late settlement of invoices; (ii) Indofood divisions or units' late delivery of goods; (iii) failure of IAP to provide a bank guarantee under certain distribution agreements; (iv) certain connected parties did not use the agreed proforma invoice for ordering goods; and (v) late payment of interest on loans advanced to PAB by Indofood in respect of the Continuing Financing Arrangements.

In addition to the conclusions of the Independent Non-executive Directors of the Company set out above, the Board of Directors of the Company ratified and confirmed each of the continuing connected transactions referred to in this report at a meeting of the Board of Directors of the Company held on 22 April 2005.

Based on the maximum aggregate values of each continuing connected transaction and applying the percentage ratios (other than the profits ratio) as required by the Listing Rules, the Company has determined that the four series of related continuing connected transactions referred to above should have previously been disclosed to the HKSE and the Company's shareholders in accordance with the requirements of Chapter 14A of the Listing Rules, while the remaining continuing connected transactions are not discloseable under available exemptions from the disclosure requirements under that Chapter.

CORPORATE GOVERNANCE REPORT

HKSE has advised the Company that HKSE reserves the right to consider whether any further action should be taken against the Company and its Directors in relation to the failure to disclose the details of those transactions required to be disclosed by the Listing Rules and (so far as required under the Listing Rules) obtain approval from its shareholders in respect of the financial year ended 31 December 2004. In relation to the financial year ending 31 December 2005, the Company will make a full announcement, as soon as practicable, in relation to those continuing connected transactions which are discloseable in respect of that financial year and will comply fully in its next Annual Report with the annual review and all other requirements of Chapter 14A of the Listing Rules applicable to the Group's continuing connected transactions.