

# Corporate Governance Report

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## Governance Framework

First Pacific is committed to building and maintaining high standards of corporate governance practices. First Pacific has adopted its own Code on Corporate Governance Practices (the “First Pacific Code”), which incorporates the principles and requirements set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Listing Rules.

First Pacific has applied these principles and complied with all the CG Code mandatory provisions and has also met all of the recommended best practices in the CG Code throughout the accounting period covered by the annual report, except for the following:–

1. The appointment of Independent Non-executive Directors (“INEDs”) representing at least one-third of the board, currently only three out of twelve Directors are INEDs.
2. The disclosure of details of remuneration payable to members of senior management on an individual and named basis in the annual reports and accounts.
3. The announcement and publication of quarterly financial results within 45 days after the end of the relevant quarter.

First Pacific board considers that it functions effectively with the current 12-member board and will consider the appointment of additional INED as and when it is considered necessary. In addition, the Company does not issue quarterly financial results based on our judgment that we should emphasize the quality, rather than the frequency of disclosure of the financial information. Furthermore, we are concerned that quarterly reporting might lead investors and management to focus on short-term financial performance, possibly at the expense of longer term financial performance of the Company. The disclosure of details of remuneration payable to members of senior management on an individual and named basis would not provide, in our view, any pertinent information to the readers in assessing the performance of the Company.

### 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 2005, 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 6 to 11.

The Board of Directors usually 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. Dates of the regular board meetings are scheduled in the prior year (subject to amendment) to provide sufficient notice to Directors enabling them to attend. For special board meetings, reasonable notice will be given. Directors are consulted as to matters to be included in the agenda for regular board meetings. Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable rules and regulations, are followed. 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. Minutes of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and other Board Committees are kept by the Company Secretary. Minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of the Board meetings and Board Committee meetings have recorded in sufficient details the matters considered by the Board and the Committees, decisions reached, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of minutes of the Board are sent to all Directors for their comments and records respectively within a reasonable time after the meeting. 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.

The Company has established a policy enabling all directors to seek independent professional advice in appropriate circumstances, at the Company's expense. The board will provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the Company as and when requested or necessary.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation or by a Committee (except an appropriate Board Committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting shall be held. Independent Non-executive Directors who, and whose associates, have no material interest in the transaction shall be present at such Board meeting.

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Currently, Mr. Anthoni Salim is the chairman of the Company and Mr. Manuel V. Pangilinan is the chief executive officer of the Company. Accordingly, the roles of the chairman and chief executive officer of the Company are segregated and are not exercised by the same individual. The division of responsibilities between the chairman and the chief executive officer of the Company are set out in the First Pacific Code.

At the Company's 2005 Annual General Meeting, approval was obtained from shareholders for, inter alia, the re-election of all directors, including the non-executive directors, for a fixed term of not more than three years, commencing on the date of his re-election (being 9 June 2005) and ending on (1) the date of the Company's AGM to be held in 2008, or (2) on 8 June 2008, or (3) the date on which such non-executive Director retires by rotation pursuant to the FP Code and/or the Bye-laws, whichever is the earlier.

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office by rotation. A retiring Director shall be eligible for election.

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.
- Monitoring risks and the effectiveness of internal controls.

During 2005, there were four board meetings and those Directors who attended are set out below.

	<b>Number of meetings attended</b>
<b>Chairman</b>	
Anthoni Salim	3/4
<b>Executive Directors</b>	
Manuel V. Pangilinan ( <i>Managing Director and Chief Executive Officer</i> )	4/4
Edward A. Tortorici	4/4
Robert C. Nicholson	4/4
<b>Non-executive Directors</b>	
His Excellency Albert F. del Rosario	3/4
Benny S. Santoso	4/4
Sutanto Djuhar	0/4
Tedy Djuhar	4/4
Ibrahim Risjad	0/4
<b>Independent Non-executive Directors</b>	
Graham L. Pickles	4/4
Professor Edward K.Y. Chen ( <i>GBS, CBE, JP</i> )	4/4
David W. C. Tang ( <i>OBE, Chevalier de L'Ordre des Arts et des Lettres</i> )	2/4

### Audit Committee

The Audit Committee is currently composed of three Independent Non-executive Directors, with Mr. Graham L. Pickles, who possesses appropriate professional qualifications and experience in financial matters, acting as Chairman of the Audit Committee. This is in compliance with Rule 3.21 of the Listing Rules. Reporting to the Board of Directors, the Audit Committee reviews matters within the purview of the audit, such as Financial Statements and internal controls, to protect the interests of the Company and its shareholders. The Audit Committee meets regularly with the Company's external auditors to discuss the audit process and accounting issues.

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 2005, there were four Audit Committee meetings and those Audit Committee members who attended are set out below.

	<b>Number of meetings attended</b>
Graham L. Pickles	4/4
Professor Edward K. Y. Chen ( <i>GBS, CBE, JP</i> )	4/4
David W. C. Tang ( <i>OBE, Chevalier de L'Ordre des Arts et des Lettres</i> )	2/4

### Remuneration Committee

The Remuneration Committee, which comprises Mr. Pangilinan (who also acts as the chairman of it), Prof. Edward Chen and Mr. David Tang, has specific written terms of reference which deal clearly with its authority and duties. The Terms of Reference of the Remuneration Committee have included the specific duties set out in Code Provisions B.1.3 (a) to (f) of the CG Code, with appropriate modifications where necessary.

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. No meeting was held during the 2005 financial year.

## Nomination Committee

The Nomination Committee, which comprises Mr. Anthoni Salim (who also acts as the chairman of it), Ambassador Albert del Rosario, Prof. Edward Chen, Mr. David Tang and Mr. Graham L. Pickles, has specific written terms of reference which deal clearly with its authority and duties. The Terms of Reference of the Nomination Committee have included the specific duties set out in paragraphs A.4.5 (a) to (d) of the CG Code, with appropriate modifications where necessary.

The committee performs the following duties:

- reviews the structure, size and composition (including the skills, knowledge and experience) of the Board of Directors on a regular basis and makes recommendations to the Board of Directors regarding any proposed changes;
- establishes recruitment, selection and nomination strategies to attract the right individuals to become Executive or Non-executive Directors; and
- makes 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 2005 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. Edward A. Tortorici has a service contract with the Company expiring on 31 December 2007. Apart from that, no other 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.

## 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 judgments 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 approvals are sought through disclosure in the Company's circulars.

At the 2005 AGM and SGM, the Chairman demanded a poll on all resolutions. The procedures for demanding a poll by the shareholders were incorporated in the respective circulars sent to the shareholders in the time stipulated. Computershare Hong Kong Investor Services Limited, the Company's Hong Kong Branch Registrar, was engaged as scrutineer to ensure the votes were properly counted.

## Remuneration Policy

Details of Directors' remuneration for the year are set out in Note 36(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.

### 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 are set out in Note 36D(a) 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.

At the 2005 AGM, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors.

In order to promote effective communication, 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.

## Connected and Continuing Connected Transactions

The Company disclosed in its 2004 Annual Report that after 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, it had identified four series of continuing connected transactions entered into by Indofood, a 51.5% subsidiary of the Company, and Indofood's subsidiaries, during the financial year ended 31 December 2004. Subsequently, the Company published a paid announcement dated 26 April 2005 disclosing details of those transactions.

In respect of the financial year ended 31 December 2005, the Company identified that Indofood and its subsidiaries are party to the same four series of continuing connected transactions (the "Transactions") with different respective estimated aggregate values. Based on the estimated maximum aggregate values of each Transaction and applying the percentage ratios (other than the profits ratio) as required by the Listing Rules, the Company has determined that the Transactions referred to above are required to be disclosed to the SEHK and the Company's shareholders in accordance with the requirements of Chapter 14A of the Listing Rules. The Company published paid announcements dated 13 September 2005 and 18 January 2006 disclosing further information of those Transactions.

The Directors (including the Independent Non-executive Directors) considered that the terms of each of the Transactions for the financial year ended 31 December 2005 are fair and reasonable and that they are in the best interests of the Company, Indofood and their respective shareholders.

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**

<b>Parties to the agreement/ arrangement</b>					
<b>Name of entity of the group</b>	<b>Name of connected party and relationship between the parties</b>	<b>Nature of agreement/ arrangement</b>	<b>Period covered by the agreement/ arrangement</b>		<b>Transaction amount for the year ended 31 December 2005 (US\$ millions)</b>
			<b>From</b>	<b>To</b>	
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	1 April 2005	31 March 2008	8.2
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	Agreement executed on 1 April 2005, Addendum executed on 3 October 2005	2 October 2008	3.3
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 and provision of related technical services in connection with DUFIL's instant noodle manufacturing operations in Nigeria	Agreement executed on 1 November 2002 and became effective on 30 November 2002	29 November 2006	1.6
ISM – FID	Pinehill Arabian Food Ltd. (Pinehill), an associate of the Salim Family	Sales and supply of noodle seasonings from ISM – FID to Pinehill	1 April 2005	31 March 2008	8.1
CKA	Pinehill, an associate of the Salim Family	Sales and supply of packaging materials from CKA to Pinehill for the production of instant noodles	1 April 2005	31 March 2008	2.2
ISM	Pinehill, an associate of the Salim Family	Trademark licensing for the exclusive use by Pinehill of the "Indomie" and "Supermi" trademarks owned by ISM in the Saudi Arabian and Middle East markets	1 February 1995	31 December 2005, automatically renewed for 5 years from 1 January 2006	0.5
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 (as amended on 25 August 2005)	31 December 2005, automatically renewed for 5 years from 1 January 2006	1.0
<b>Aggregate transaction amount</b>					<b>24.9</b>

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

<b>Parties to the agreement/ arrangement</b>					
<b>Name of entity of the group</b>	<b>Name of connected party and relationship between the parties</b>	<b>Nature of agreement/ arrangement</b>	<b>Period covered by the agreement/ arrangement</b>		<b>Transaction amount for the year ended 31 December 2005 (US\$ millions)</b>
			<b>From</b>	<b>To</b>	
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	1 April 2005	31 March 2006 (terminated on 31 August 2005)	0.2
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	1 April 2005	1 April 2006 (terminated on 31 August 2005)	0.3
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	1 April 2005	31 March 2006 (terminated on 31 August 2005)	0.1
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	1 April 2005	31 March 2006 (terminated on 31 August 2005)	0.0
PT Gizindo Prima Nusantara (GPN)	PAB, an associate of the Salim Family	Production of baby biscuits by PAB under the GPN brand name for the distribution to trade outlets in Indonesia	1 January 2005	31 December 2005 (terminated on 31 August 2005)	0.2
PT ISM Food Ingredients Division (FID)	PAB, an associate of the Salim Family	Supply of powder and ingredients from FID to PAB for the manufacture of biscuits	1 January 2005	31 December 2005 (terminated on 31 August 2005)	0.0
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	1 April 2005	31 July 2005	0.7
ISM Bogasari – Surabaya	Tarumatex, an associate of the Salim Family	Sales and supply of calico bags from Tarumatex to ISM Bogasari. The calico bags are used for storing the flour produced by Bogasari	1 April 2005	31 July 2005	0.7
<b>Aggregate transaction amount</b>					<b>2.2</b>



## 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 2005 (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 2005	31 March 2007 (terminated on 8 September 2005)	3.1
IAP	PT Lion Superindo ("LS"), an associate of the Salim Family	IAP distributes various consumer products to LS	1 April 2005	1 April 2006, automatically renewed for 1 year from 2 April 2006	4.6
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	1 January 2005	1 December 2005, automatically renewed for 1 year from 1 January 2006	3.8
Aggregate transaction amount					11.5

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## 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 2005 (US\$ millions)
			From	To	
ISM	PAB, an associate of the Salim Family	Financing to PAB	30 December 2004	30 December 2005	—*
		– Short-term (1 year) – Long-term (2 years)	30 December 2004	30 December 2006	—*
Aggregate transaction amount					—

\* All outstanding balances have been fully settled.

Each of the above continuing connected transactions has been subject to annual review by the Independent Non-executive Directors of the Company pursuant to Rule 14A.37 of the Listing Rules and confirmation of the auditors of the Company pursuant to Rule 14A.38 of the Listing Rules.

In respect of the financial year ended 31 December 2005, 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 Arrangement referred to in D above (all outstanding balances have been fully settled in 2005);
- 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; and (iv) late payment of interest on loans advanced to PAB by Indofood in respect of the Continuing Financing Arrangements.

### **Risk Management and Internal Control**

The Board is responsible for maintaining an adequate system of internal controls in the Company and reviewing its effectiveness through the Audit Committee. Management is primarily responsible for the design, implementation, and maintenance of internal controls as well as the review of the relevant financial, operational and compliance controls and risk management procedures, while the Board of Directors and its audit committee oversees the actions of Management and monitor the effectiveness of the systems of internal controls.