

Corporate Governance Report

Contents

41	Governance Framework
45	Remuneration Policy
46	Communications with Shareholders
46	Connected and Continuing Connected Transactions

Governance Framework

First Pacific is committed to building and maintaining high standards of corporate governance practices. The Company 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 2006, 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 are set out on pages 8 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 meetings and meetings of 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 meetings and meetings of the Board Committees 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.

Currently, Mr. Anthoni Salim is the Chairman of the Company and Mr. Manuel V. Pangilinan is the Managing Director and 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.

In accordance with the Company's bye-laws and First Pacific Code, at each AGM 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.

At the Company's 2006 AGM, Mr. Anthoni Salim, Mr. Sutanto Djuhar, Mr. Tedy Djuhar and Mr. Ibrahim Risjad, who have been longest in office since their appointment, retired by rotation but being eligible, were re-elected as non-executive Directors of First Pacific for a fixed term of not more than three years, commencing on the date of their re-election (being 24 May 2006) and ending on (1) the date of the Company's AGM to be held in 2009, or (2) on 23 May 2009, or (3) the date on which each non-executive Director retires by rotation pursuant to the First Pacific Code and/or the bye-laws, whichever is the earlier.

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 2006, there were five board meetings and those Directors who attended are set out below.

	Number of meetings attended
Chairman	
Anthoni Salim	1/5
Executive Directors	
Manuel V. Pangilinan, <i>Managing Director and Chief Executive Officer</i>	5/5
Edward A. Tortorici	5/5
Robert C. Nicholson	5/5
Non-executive Directors	
Ambassador Albert F. del Rosario	5/5
Benny S. Santoso	4/5
Sutanto Djuhar	0/5
Tedy Djuhar	5/5
Ibrahim Risjad	0/5
Independent Non-executive Directors	
Graham L. Pickles	5/5
Prof. Edward K.Y. Chen, <i>GBS, CBE, JP</i>	5/5
David W. C. Tang, <i>OBE, Chevalier de L'Ordre des Arts et des Lettres</i>	5/5

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.

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 2006, there were two Audit Committee meetings and those Audit Committee members who attended are set out below.

	Number of meetings attended
Graham L. Pickles	2/2
Prof. Edward K. Y. Chen, <i>GBS, CBE, JP</i>	2/2
David W. C. Tang, <i>OBE, Chevalier de L'Ordre des Arts et des Lettres</i>	1/2

Remuneration Committee

The Remuneration Committee, which comprises Mr. Manuel V. Pangilinan (who also acts as the chairman of it), Prof. Edward K.Y. 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. During the 2006 financial year, the Remuneration Committee approved the grant of share options to a senior executive of the Company and the latest meeting of the Remuneration Committee took place on 25 January 2007.

Nomination Committee

The Nomination Committee, which comprises Mr. Anthoni Salim (who also acts as the chairman of it), Ambassador Albert F. del Rosario, Prof. Edward K.Y. 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 2006 financial year. However, the Nomination Committee is scheduled to meet in the third quarter of 2007.

Independent Board Committee

Where there are matters involving connected or continuing connected transactions or other 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, the Company can confirm that 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.

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.

Directors' Training

During the course of the year, the Board was updated by the Company's legal adviser in relation to the recent changes in the Listing Rules regarding Directors' obligations and liabilities. The Board was also informed of updates of accounting and disclosure changes over the last 12 months.

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 2006 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 defined contribution schemes, 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 SGM 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 2006 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) which includes past and present information relating to the Group and its businesses.

Connected and Continuing Connected Transactions

At the Company's SGM held on 14 June 2006, the Company's independent shareholders approved, inter alia, a series of continuing connected transactions relating to Indofood's noodles business. This approval related to the provision of raw materials or finished and packaging products, the provision of technical services and the licensing of related trademarks to connected persons, as well as the Annual Caps for the Noodles Business Transactions for the years ending 31 December 2006, 2007 and 2008. In cases where the transactions expire part way through the calendar year 2008, the independent shareholders approved the pro rata amount of the Annual Cap applicable to the period during the calendar year for which the relevant agreement remains in effect, details as set out in the Company's circular dated 22 May 2006.

The aggregate of the proposed Annual Caps for all the Noodles Business Transactions for the years ending 31 December 2006 and 2007 are US\$47.3 million and US\$60.8 million respectively. The aggregate Annual Caps for the Noodles Business Transactions applicable, on a pro rated basis, to the agreements which expire during 2008 and those which continue throughout 2008 is US\$30.9 million. As the relevant percentage ratios (as defined in the Listing Rules) applicable to the aggregate Annual Caps in respect of the Noodles Business Transactions exceed 2.5%, the Company obtained the independent shareholders' approval for each of these continuing connected transactions at the SGM referred to above.

The relevant percentage ratios (as defined in the Listing Rules) applicable to the aggregate Annual Caps in respect of the Distribution Business Transactions do not exceed 2.5% and, therefore, each of those continuing connected transactions is not required to be approved by the independent shareholders at the SGM but have been disclosed in the Company's announcement dated 28 April 2006.

During 2006, the equity interest in PT Asuransi Central Asia (ACA) and PT Indosurance Broker Utama (IBU) changed such that these became connected parties (i.e. a member of the Salim Group). Certain members of Indofood Group (the "Insured Indofood Entities") have entered into a series of transactions with ACA for the provision of insurance covering portions of the inventories, property, plant and equipment, vehicles, marine cargo and other assets of the Insured Indofood Entities while IBU acts as insurance broker for the marine cargo insurance in relation to the assets of the Insured Indofood Entities with different respective estimated aggregate values (the "Transactions"). Based on the estimated maximum aggregate values of each Transaction and applying the relevant percentage ratios (as defined in the Listing Rules), the Company has determined that the Transactions referred to above are required to be disclosed to SEHK and the Company's shareholders in accordance with the requirements of Chapter 14A of the Listing Rules. The Company published an announcement dated 3 November 2006 disclosing further information of those Transactions.

Each of the above continuing connected transactions will be 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.

On 9 March 2007, PT Salim Ivomas Pratama, a 64% owned subsidiary company of Indofood, completed the acquisition of a 60 per cent interest in three plantation companies owning approximately 85,500 hectares of plantation land for a consideration of Rupiah 125 billion (US\$13.8 million) from Rascal Holdings Limited (a member of the Salim Group). Following completion of the acquisition, the plantation companies and their respective subsidiaries have become subsidiaries of Indofood, thereby subsidiaries of the Company.

The Directors (including the Independent Non-executive Directors) considered that the terms of each of the continuing connected transactions for the financial year ended 31 December 2006 and the subsequent acquisition of plantation companies on 9 March 2007 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.46 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 2006 (US\$ millions)
			From	To	
PT Indofood Sukses Makmur Tbk (ISM) – Food Ingredients Division (ISM – FID)	De United Food Industries Ltd. (DUFIL), an associate of Mr. Anthoni Salim	Sales and supply of noodle seasonings from ISM – FID to DUFIL	1 April 2005	31 March 2008	10.0
PT Ciptakemas Abadi (CKA)	DUFIL, an associate of Mr. Anthoni Salim	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	3.4
ISM	DUFIL, an associate of Mr. Anthoni Salim	Trademark licensing for the 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 (Renewed up to 29 November 2010)	2.0
ISM – FID	Pinehill Arabian Food Ltd. (Pinehill), an associate of Mr. Anthoni Salim	Sales and supply of noodle seasonings from ISM – FID to Pinehill	1 April 2005	31 March 2008	11.1
CKA	Pinehill, an associate of Mr. Anthoni Salim	Sales and supply of packaging materials from CKA to Pinehill for the production of instant noodles	1 April 2005	31 March 2008	3.2
ISM	Pinehill, an associate of Mr. Anthoni Salim	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 January 2006	31 December 2010	0.6
PT Prima Intipangan Sejati (PIPS)	Pinehill, an associate of Mr. Anthoni Salim	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 January 2006	31 December 2010	1.2
Aggregate transaction amount					31.5

B. 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 2006 (US\$ millions)
			From	To	
PT Indomarco Adi Prima (IAP)	PT Lion Superindo ("LS"), an associate of Mr. Anthoni Salim	IAP distributes various consumer products to LS	1 April 2005	1 April 2006 (Automatic extension for one year upon expiry)	5.4
IAP	PT Buana Distrindo ("BD"), an associate of Mr. Anthoni Salim	As a sub-distributor of BD, IAP purchases Pepsicola and tea beverage products for resale to trade outlets in Indonesia	1 January 2006	31 December 2006 (Automatic extension for one year upon expiry)	5.1
Aggregate transaction amount					10.5

C. Transactions relating to the Insurance Policies 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 2006 (US\$ millions)
			From	To	
ISM and subsidiaries	PT Asuransi Central Asia (ACA), an associate of Mr. Anthoni Salim	ISM and subsidiaries take out insurance policies with ACA	31 December 2005	31 December 2006	2.6
			(Property all risk and earthquake insurance)	(Automatic extension for one year upon expiry)	
ISM and subsidiaries	PT Indosurance Broker Utama (IBU), an associate of the Salim Family	ISM and subsidiaries take out insurance policies with IBU acting as insurance broker	1 July 2006	1 July 2007	0.6
			(Vehicle insurance)		
Aggregate transaction amount					3.2

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 2006, the Independent Non-executive Directors of the Company have concluded that each continuing connected transaction has been entered into:

- 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 an exception 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 an exception which has 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 exception contained in Ernst & Young's letter related to certain connected party's late settlement of invoices.

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. The Board has appointed a compliance officer on a continuing basis to assist the Company in its compliance obligations.

In addition, during the year ended 31 December 2006, the Audit Committee reviewed and advised that:

- The internal controls and accounting systems of the Group function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication and compliant with all relevant laws and regulations.
- There is an ongoing process in place for identifying, evaluating and managing the material business risks faced by the Group.
- There are initiatives to improve certain processes to further strengthen internal controls and enhance risk management within the Group.