



**REVISED MANUAL  
OF  
CORPORATE GOVERNANCE**

The Board of Directors, Management, Officers, employees, and shareholders of **MACAY HOLDINGS, INC.** (the "Corporation") hereby commit themselves to the principles and best practices contained in this Manual as a guide to the attainment of its corporate goals.

## 1. OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors, Management, Officers, employees, and shareholders of **MACAY HOLDINGS, INC.** believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create and sustain awareness of this policy within the organization as soon as possible.

## 2. DEFINITIONS

- 2.1 Board of Directors** – refers to the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business, and controls its properties.
- 2.2 Corporate Governance** – refers to framework of rules, systems and processes in the corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, the government and community in which it operates.
- 2.3 Independent Director** – refers to a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.
- 2.4 Public Company** – refers to any corporation with a class of equity securities listed in an Exchange or with assets in excess of Fifty Million Pesos (Php50,000,000.00) and having two hundred (200) or more stockholders each holding at least one hundred (100) shares of a class of its securities.
- 2.5 Management** – refers to the body given the authority to implement the policies determined by the Board in directing the course/business activity(ies) of the corporation.
- 2.6 Executive Directors** – refers to a director who is also the head of a department or unit of the corporation or performs any work related to its operation.
- 2.7 Non-executive Directors** – refers to a director who is not the head of a department or unit of the corporation nor performs any work related to its operation.
- 2.8 Non-audit Work** - refers to other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as accounting, payroll, bookkeeping, reconciliation, computer

project management, data processing or information technology outsourcing services, internal audit, and services that may compromise the independence and objectivity of the external audit.

- 2.9 Internal Control** – refers to the system established by the Board of Directors and Management for the accomplishment of the corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faith compliance with applicable laws, regulations, and internal rules.
- 2.10 Internal Control System** – refers to the framework under which internal controls are developed, implemented alone, or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed.
- 2.11 Internal Audit** – refers to an independent and objective assurance activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control, and governance processes.
- 2.12 Internal Audit Department** – refers to a department, division, team of consultants, or other practitioner(s) that provide independent and objective assurance services in order to add value and improve the corporation's operations.
- 2.13 Chief Auditor** – refers to the position within the organization responsible for internal audit activities. In a traditional internal audit activity, this would be the internal auditor. In the case where internal audit activities are obtained from outside service providers, the chief auditor is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, chief audit executive, and inspector general.
- 2.14 Independence** – refers to that environment which allows the person to carry out his/her work freely and objectively.
- 2.15 Objectivity** – refers to unbiased mental attitude that requires the person to carry out his/her work in such a manner that he/she has an honest belief in his/her work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his/her judgment to that of others.
- 2.16 Standard for the Professional Practice of Internal Auditing (SPPIA)** – refers to the criteria by which operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be, provide a framework for performing and promoting a broad range of value-added internal audit activities and foster improved organizational processes and operation.

### **3. CORPORATE COMPLIANCE SYSTEM**

This consists of the organization, officers, functions, responsibilities, and procedures established by the Corporation that would ensure compliance with this Manual.

### **3.1. The Board of Directors**

The Board of Directors (the "Board") is primarily responsible for the governance of the Corporation. Corollary to setting the policies for the accomplishment of corporate objectives, it shall provide an independent check on management.

#### **3.1.1. Composition of the Board**

The Board shall be composed of thirteen (13) directors, with at least two (2) independent directors or at least 20% of the Board size, whichever is the lesser.

The Board should have a mix of executive and non-executive members, including independent directors. As much as practicable, the roles of the Chairman of the Board and President/Chief Executive Officer should be separate from each other to foster an appropriate balance of power, increased accountability, and better capacity for independent decision-making by the Board.

#### **3.1.2. General Responsibility of the Board**

The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities.

It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.

The Board should formulate the Corporation's vision, mission, strategic objectives, policies, and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

#### **3.1.3. Specific Duties and Functions of the Board**

To ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- a) Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest, and highly motivated management officers. Adopt an effective succession planning program for Management.

- b) Provide sound strategic policies and guidelines to the Corporation on major investments and capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- c) Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices.
- d) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Corporation. If feasible, the CEO or chief financial officer shall exercise oversight responsibility over this program.
- e) Identify the Corporation's stakeholders in the community in which it operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- f) Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness.
- g) Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Corporation to anticipate and prepare for possible threats to its operational and financial viability.
- h) Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships by members of the Board.
- i) Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- j) Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties, including regulatory authorities.

- k) Meet at such times or frequency as may be needed but no less than four (4) times during one calendar year. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
- l) Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.
- m) Appoint a Compliance Officer with the rank of at least vice-president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.
- n) Perform such other responsibilities as may be required under relevant rules and regulations.

#### **3.1.4. Specific Duties and Responsibilities of a Director**

A director's office is one of trust and confidence. A director should act in the best interest of the Corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the Corporation towards sustained progress.

A director should observe the following norms of conduct:

- (a) Conduct fair business transactions with the Corporation and ensure that his personal interest does not conflict with the interests of the Corporation.

The basic principle to be observed is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position.

A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the Corporation, or stands to acquire or gain financial advantage at the expense of the Corporation.

- (b) Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.

A director should devote sufficient time to familiarize himself with the Corporation's business. He should be constantly aware and knowledgeable of the Corporation's operations to enable him to meaningfully contribute to the Board's work.

Attendance in board meetings is crucial to the effectiveness of the Board and establishing a quorum at meetings. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation. He should be physically present in at least 50% of the Board meetings.

(c) Act judiciously.

Before deciding on any matter brought before the Board, a director should carefully evaluate the issues and, if necessary, make inquiries and request clarification.

The Board shall have access to complete, adequate, and timely information from Management about matters to be taken up in their meetings. Reliance on information volunteered by Management may not be sufficient in all circumstances and further inquiries may have to be made by members of the Board to enable them to properly perform their duties and responsibilities. For this purpose, members shall be given independent access to Management and the Corporate Secretary on any issue which requires clarification.

(d) Exercise independent judgment.

A director should view each problem or situation objectively. If a disagreement with other directors arises, he should carefully evaluate and explain his position. He should not be afraid to take an unpopular position. Corollary, he should support plans and ideas that he thinks are beneficial to the Corporation.

(e) A director shall have working knowledge of the statutory and regulatory requirements that affect the Corporation, including its articles of incorporation and by-laws, the rules and regulations of the Commission, and where applicable, the requirements of relevant regulatory agencies.

A director should keep abreast with industry developments and business trends in order to promote the Corporation's competitiveness.

(f) Observe confidentiality.

A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position

as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.

### **3.1.5. Independent Director**

The Board must be able to exercise objective judgment in order to fulfill its duties and functions. Such independence and objectivity with respect to Management requires that there is a sufficient number of independent directors in the Board (OECD Principles of Corporate Governance 2004, p. 63). There shall be at least two (2) Independent Directors elected to the Board.

Independent Directors should always attend Board Meetings. The Board may, to promote transparency, require the presence of at least one Independent Director in all its meetings.

An Independent Director shall have the qualifications and none of the disqualifications as set forth in Corporation's by-laws and the Securities Regulation Code, its Implementing Rules and Regulations, and relevant issuances of the Securities and Exchange Commission (SEC).

## **3.2. Board Committees**

### **3.2.1. Nomination Committee**

#### **3.2.1.1. Composition**

The Board shall create a Nomination Committee which shall have at least three (3) members, at least one of whom should be an independent director.

This Manual shall serve as the written charter of the Nomination Committee.

#### **3.2.1.2. Functions**

The following shall be the duties and responsibilities of the Nomination Committee:

- a) Review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval and make the appropriate recommendation therefor to the Board, for its approval;
- b) Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors;
- c) Pre-screen and shortlist all candidates nominated to become members of the Board of Directors in accordance with the qualifications and disqualifications provided for hereunder.

### **Qualifications of a Director**

- i. He must be a holder of at least one (1) share of stock of the Corporation;
- ii. He must be at least a college graduate or possess an equivalent academic degree or have at least five (5) years experience in business to substitute for such formal education;
- iii. He must be at least twenty-five (25) years old at the time of his election or appointment;
- iv. He shall have been proven to possess integrity and probity; and
- v. He shall be assiduous and diligent.

### **Disqualifications of a Director**

#### **a) Persons Permanently Disqualified**

- i. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the SRC; (b) arises out of the person's conduct as an underwriter, broker, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank quasi-bank, trust company, investment house or as an affiliated person of any of them;
- ii. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or any regulatory body, or under any rule or regulation issued by the Commission, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- iii. Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- iv. Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission, or any of its rule, regulation or order;
- v. Any person judicially declared to be insolvent;
- vi. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs;
- vii. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.
- viii. Possession of disqualifications under the By-Laws

**Effect of Disqualification or Non-Possession of Qualification by a Director**

Directors/Officers elected or appointed without possessing the qualifications or possessing any of the disqualifications as enumerated herein or in the By-laws of the Corporation shall vacate their respective positions immediately.

**b) Persons Temporarily Disqualified**

- i. Refusal to comply with the disclosure requirements of the SRC and its IRR. This disqualification shall be effective as long as the refusal persists.
- ii. Absence in more than fifty percent (50%) of all regular and special meetings of the Board of directors during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election.
- iii. Dismissal or termination for cause as director of any corporation covered by SEC Memorandum Circular No. 6, series of 2009, or the Revised Code of Corporate Governance (the "Code") or any amendment or attachment thereof. The disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.
- iv. If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
- v. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporary disqualified director shall, within sixty (60) business days from such disqualification, take appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

The applicable qualifications/disqualifications for directors shall likewise apply to officers.

- d) In consultation with the Board, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.
- e) Consider the following guidelines in the determination of the number of directorships for the Board:
  - The nature of the business of the Corporation of which he is a director;
  - Age of the director;
  - Number of directorships/active memberships and officerships in other corporations or organizations; and
  - Possible conflict of interest.

The Chief Executive Officer and other executive directors shall submit themselves to a low indicative limit on membership in other corporate boards. The same low limit shall apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

The optimum number shall be related to the capacity of a director to perform his duties diligently in general.

### **3.2.2. Compensation and Remuneration Committee**

#### **3.2.2.1. Composition**

The Compensation and Remuneration Committee shall be composed of at least three (3) members from the Board of Directors, at least one of whom shall be an independent director.

This Manual shall serve as the written charter for the Compensation and Remuneration Committee.

#### **3.2.2.2. Functions**

The duties and responsibilities of the Compensation and Remuneration Committee are as follows:

- a) Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment.
- b) Designate the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Corporation successfully.
- c) Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
- d) Disallow any director to decide his or her own remuneration.
- e) Provide in the Corporation's annual reports, information, and proxy statements a clear, concise, and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.
- f) Develop or adopt policies to strengthen provisions on conflict of interest, salaries and benefits, promotion and career advancement directives and compliance with statutory requirements and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.
- g) Review and assess, at least annually, the adequacy of its charter and recommend changes for the approval of the Board.

### **3.2.3. Audit Committee**

#### **3.2.3.1. Composition**

The Audit Committee shall be composed of members of the Board of Directors, at least two (2) of whom shall be independent directors, including the Chairman, preferably with Accounting, Auditing, or related financial management

expertise or experience. Each member shall have adequate understanding at least or competence at most of the Corporation's financial management systems and environment.

The charter of the Audit Committee is attached as Annex "A" of this Manual.

### **3.2.3.2. Functions**

The Audit Committee shall have the following duties and responsibilities:

- a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules, and regulations.
- b) Provide oversight over the Management's activities in managing investments, credit, market, liquidity, operational, legal and other risks of the Corporation. This function includes regular receipt from Management of information on risk exposures and risk management activities.
- c) Perform oversight functions over the Corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties, and personnel to enable them to perform their respective audit functions.
- d) Review the annual internal audit plan to ensure its conformity with the objectives of the Corporation. The plan shall include audit scope, resources, and budget necessary to implement it.
- e) Prior to the commencement of the audit, discuss with the external auditor the nature, scope, and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
- f) Organize an internal audit department and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;

- g) Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security;
- h) Review the reports submitted by the internal and external auditors and regulatory agencies, where applicable, and ensure that Management is taking appropriate measures and corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies.
- i) Review the quarterly, half year and annual financial statements before submission to the Board, focusing particularly on:
  - Any changes in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments resulting from the audit
  - Going concern assumption
  - Compliance with accounting standards
  - Compliance with tax, legal and other regulatory requirements
- j) Be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.
- k) Evaluate and determine non-audit work, if any, of the external auditor and review periodically the non-audit fees paid to the external auditor, if any, both in relation to their significant to the total annual income of the auditor and the Corporation's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with the auditor's duties or may pose a threat to independence. The non-audit work, if allowed, should be disclosed in the Corporation's annual report.
- l) Establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. The internal auditor shall report to the audit committee functionally and to the President/Chief Executive Officer administratively. The Committee shall ensure that the internal auditor/s shall have free and full access to all the Corporation's records, properties and personnel relevant to the Internal Audit activity and that the Internal Audit activity should be free from interference in determining

the scope of internal auditing examinations, performing work, and communicating results.

- m) Have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by Management and full discretion to invite directors or executive officers to attend its meetings and adequate resources to enable it to effectively discharge its functions.
- n) Review and assess the adequacy of the Committee Charter periodically, requesting Board approval for proposed changes.
- o) Address all issues and concerns from the external auditor expeditiously and effectively to avoid the possibility of their having to render a qualified or adverse opinion, including substantive and significant disclaimers.
- p) Ensure that the external auditor is credible, competent, and should have the ability to understand complex related party transactions, its counterparties, and valuations of such transactions.
- q) Ensure that the external audit firm is selected on the basis of a fair and transparent tender process.
- r) Conduct regular meetings and dialogues with the external audit team without anyone from management present.
- s) Ensure that, should the external auditor not be rotated, the lead audit partner is rotated every five years.

### **3.2.4. Corporate Governance Committee**

#### **3.2.4.1. Composition**

The Corporate Governance Committee shall be composed of at least three (3) members, two (2) of whom shall be independent directors.

This Manual shall serve as its charter.

#### **3.2.4.2. Functions**

The Committee shall have the following duties and responsibilities:

- (a) Be responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines.
- (b) Oversee the periodic performance evaluation of the Board and its committees and executive management.
- (c) Conduct a periodic self-evaluation of its performance.
- (d) Decide whether or not a director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation).
- (e) Make continuing recommendations to the Board regarding the continuing education of directors, assignment to board committees, succession plan for the board members and senior officers and their remuneration commensurate with corporate and individual performance.
- (f) Decide the manner by which the Board's performance may be evaluated and propose an objective performance criteria to be approved by the Board. Such performance indicators shall address how the Board has enhanced long term shareholder's value.
- (g) Conduct an annual review of this Manual and the governance and any related scorecards.

### **3.2.5. Term of Office for Committee Members**

The members of the Corporation's Committees shall serve at the pleasure of the Board and for such term or terms as the Board may determine, or until their earlier resignation, death, or removal by the Board. Termination or expiration of members' terms of office may be staggered to allow the retention of seasoned members and to ensure each Committee's uninterrupted workflow.

### **3.2.6. Conduct of Committee Meetings**

Each Committee shall meet as often as the circumstances may require. During each meeting, each Committee may require the attendance of relevant officer/s to address any query from its members or to present specified reports.

### **3.2.7. Quorum of Committee**

The quorum shall be at least 51% of the regular members, one of which should be the Chairperson of the Committee or, in his absence, the designated vice-chairman who shall chair the meeting. A majority vote among those present shall be required to pass or defeat any resolution at the meeting, provided such majority vote shall always include the vote of the Chairperson or, in his absence, the Vice Chairperson.

### **3.2.8. Approvals**

Approvals by any Committee may be made at or during its meetings or through circulation to all members of the Committee.

## **3.3. Management**

**3.3.1.** Management shall formulate rules and procedures to assist the Board or any of its Committees in the discharge of their functions and responsibilities and ensure compliance with applicable laws, rules, and regulations.

**3.3.2.** Management should formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- (a) The extent of responsibility in the preparation of the financial statements, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained.
- (b) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Corporation for the benefit of all stockholders and other stakeholders should be maintained.
- (c) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of control that cover the Corporation's governance, operations and information systems, including reliability and integrity of financial and operational information effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations.
- (d) The Corporation should consistently comply with financial reporting requirements of the Commission.
- (e) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external

auditing firm assigned to the Corporation should be changed with the same frequency.

### **3.3.3. Chairperson**

The Chairperson shall preside at the meetings of the Board and the stockholders. He shall also exercise such powers and perform such duties as mandated under the Corporation's By-laws or as may otherwise be assigned by the Board or the stockholders. He shall:

- (a) Ensure that the meetings of the Board are held in accordance with the Corporation's By-laws or as he may deem necessary.
- (b) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the Chief Executive Officer, Management, and the directors.
- (c) Maintain qualitative and timely lines of communication and information between the Board and Management.

### **3.3.4. President**

The President, who shall be a director, shall be the Chief Executive Officer who shall handle the administration and direction of the Corporation. He shall exercise the following functions:

- a) Initiate and develop corporate strategies and policies, and formulate business plans for the approval of the Board of Directors.
- b) Identify, evaluate, and recommend investment opportunities for the Corporation, for the approval of the Board.
- c) Provide the necessary leadership for Management in planning, developing, and implementing business strategies, plans, and budgets as approved by the Board in keeping with the Corporation's mission, vision, and corporate objectives.
- d) Have general supervision and management of the business affairs and property of the Corporation.
- e) Ensure that the administrative and operational policies of the Corporation are carried out under his supervision and control.
- f) Oversee the preparation of the budgets and the financial statements of the Corporation; sign/execute such reports of the Corporation as may be required by regulatory bodies.
- g) Represent the Corporation at all functions and proceedings.

- h) Execute on behalf of the Corporation all contracts, agreements, and other instruments affecting the interests of the Corporation that require the approval of the Board of Directors, unless otherwise directed by the Board of Directors.
- i) Make and present the reports to the Board of Directors and Stockholders.
- j) Perform such other duties incidental to his office or are entrusted to him by the Board of Directors.

### **3.3.5. Treasurer**

The Treasurer of the Corporation shall be its chief fiscal officer and the custodian of its funds, securities, and properties. He shall perform his functions as mandated under the Corporation's By-laws and other Corporation documents, manuals, or charters and exercise such authority and perform such other duties and responsibilities as may be assigned to the position.

### **3.3.6. Corporate Secretary**

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, is an officer of the Corporation. The Corporate Secretary should:

- (a) Be responsible for the safekeeping and preservation of the integrity of the minutes of the Board and its committees, as well as other official records of the Corporation;
- (b) Be loyal to the mission, vision, and objectives of the Corporation.
- (c) Work fairly and objectively with the Board, Management, stockholders and stakeholders;
- (d) Have appropriate administrative and interpersonal skills;
- (e) If he is not at the same time the Corporation's general counsel, be aware of the laws, rules, and regulations necessary in the performance of his duties and responsibilities.
- (f) Have a working knowledge of the operations of the Corporation.
- (g) Inform the members of the Board, in accordance with the Corporation's By-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval.

- (h) Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family, and serious accidents prevent him from doing so;
- (i) Ensure that all Board procedures, rules, and regulations are strictly followed by the members;
- (j) If he is also the Compliance Officer, perform all the duties and responsibilities of said office as provide in the Code and in this Manual.

### **3.3.7. Compliance Officer**

To insure adherence to corporate principles and best practices, the Board shall appoint a Compliance Officer who shall hold the position of a Vice President or its equivalent. The Compliance Officer shall have direct reporting responsibilities to the Chairman of the Board. The Corporate Secretary may also be appointed as Compliance Officer. His duties and responsibilities are as follows:

- (a) Monitor and ensure compliance by the Corporation with the provisions and requirements of the Code, the rules and regulations of regulatory agencies, and this Manual and, if any violations are found, report the matter to the Board or, as applicable, the Corporate Governance Committee, and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation.
- (b) Appear before the Securities and Exchange Commission when summoned in relation to compliance with the Code.
- (c) Accomplish and submit the Annual Corporate Governance Report or any similar report as required by regulators.
- (d) Submit annually, as required by the Commission, a report of the director's record of attendance in Board meetings.

The appointment of the Compliance Officer shall be reported to the SEC in accordance with existing regulations. All correspondence relative to his functions as such shall be addressed to the said Officer.

### **3.3.8. Internal Auditor**

- a. The Corporation shall have in place an independent internal audit function which shall be performed by an internal auditor or a group of internal auditors, or a service provider engaged to perform internal audit functions through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and

procedural controls are effective, appropriate, and complied with.

As a holding company, the Corporation's internal audit function may operate at the level of its operating subsidiary/ies.

- b. The internal auditor shall have a direct reporting line to the Audit Committee.
- c. The appointment or removal of the head of the internal audit office shall be subject to the approval of the Audit Committee.
- d. The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Corporation's organizational and procedural controls.
- e. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.
- f. The internal audit function may be outsourced to an external service provider.

### **3.3.9. External Auditor**

- a. An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Corporation. An external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.
- b. The external auditor shall undertake an independent audit of the Corporation and shall provide an objective assurance on the manner by which financial statements shall be prepared and presented to stockholders.
- c. The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Corporation's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. A preliminary copy of the said report shall be

given by the Corporation to the external auditor before its submission.

- d. The external auditor of the Corporation shall not at the same time provide the services of an internal auditor. The Corporation shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.
- e. The company's external auditor shall be rotated or the signing partner shall be changed every five (5) years or earlier.
- f. If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said report.
- g. The external auditor shall be subject to rules and regulations as prescribed by the SEC.

#### **4. COMMUNICATION PROCESS**

- 4.1 This manual shall be available for inspection by any stockholder of the Corporation at reasonable hours on business days.
- 4.2 All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.
- 4.3 An adequate number of printed copies of this Manual must be reproduced under the Supervision of the Human Resources Department, with a minimum of at least one (1) hard copy of the Manual per department.

#### **5. TRAINING PROCESS**

- 5.1 If necessary, funds shall be allocated by the Treasurer or its equivalent officer for the purpose of conducting an orientation program or workshop on the Manual.
- 5.2 A director shall, before assuming as such, be required to attend a seminar on corporate governance, which shall be conducted by a duly recognized private or government institution.

#### **6. REPORTORIAL OR DISCLOSURE SYSTEM OF COMPANY'S CORPORATE GOVERNANCE POLICIES**

The essence of corporate governance is transparency. The more transparent the internal workings of the Corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the Corporation or misappropriate its assets. It is therefore essential that all material information about the Corporation

which could adversely affect its viability or interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. All such information should be disclosed through the appropriate Exchange mechanism and submissions to the Commission.

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders.

- 6.1 The reports or disclosures required under this Manual shall be prepared and submitted to the Commission by the responsible Committee or officer through the Corporation's Compliance Officer.
- 6.2 All material information, i.e., anything that could potentially affect share price, shall be publicly disclosed. Such information shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors, and changes to ownership.
- 6.3 Other information that shall always be disclosed includes remuneration (including stock options) of all directors and senior management corporate strategy, and off balance sheet transactions.
- 6.4 All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.
- 6.5 The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders.

## **7. SHAREHOLDERS' BENEFIT**

The Corporation recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as the governance covenant between the Corporation and all its investors:

### **INVESTOR'S RIGHTS AND PROTECTION**

#### **7.1 Rights of Investors/Minority Interests**

The Board shall be committed to respect the following rights of the stockholders:

**7.1.1. Voting Right**

- a) Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- b) Cumulative voting shall be used in the election of directors.
- c) A director shall not be removed without just cause if it will deny minority shareholders representation in the Board.

**7.1.2. Power of Inspection**

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

**7.1.3. Right to Information**

- a) The shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings with the Corporation's shares, dealings with the Corporation, relationship among directors and key officers, and the aggregate compensation of directors and officers.
- b) The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting; provided the items are for legitimate business purposes.
- c) The minority shareholders shall have access to any and all information relating to matters for which the Management is accountable, except for matters covered by confidentiality agreements.

**7.1.4. Right to Dividends**

- a) Shareholders shall have the right to receive dividends subject to the discretion of the Board.
- b) The Corporation shall be compelled to declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the Corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly

shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

#### **7.1.5. Appraisal Right**

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Sec. 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code: and
- c) In case of merger or consolidation:

It shall be the duty of the directors to promote, and remove the impediments to, the exercise of shareholder's rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders's voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

## **8. MONITORING AND ASSESSMENT**

- 8.1 Each Committee shall report regularly to the Board of Directors.
- 8.2 The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Part 9 of this Manual.
- 8.3 The establishment of such evaluation system, including the features thereof, shall be disclosed in the company's annual report (SEC Form17-A) or in such form of report that is applicable to the Corporation. The adoption of such performance evaluation system must be covered by a Board approval.

- 8.4 This Manual shall be subject to annual review and any change shall be approved by the Board and disclosed to the Commission, when so required.

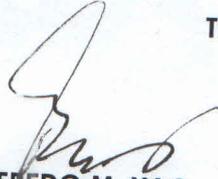
**9. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

- 9.1 To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:
- a) In case of **first violation**, the subject person shall be reprimanded.
  - b) Suspension from office shall be imposed in case of **second violation**. The duration of the suspension shall depend on the gravity of the violation.
  - c) For **third violation**, the maximum penalty of removal from office shall be imposed.
- 9.2 The commission of a third violation of this Manual by any member of the Corporation's Board of Directors or of its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
- 9.3 The Compliance Officer shall be responsible in identifying and reporting violations of the Manual to the Corporate Governance Committee, which shall conduct hearings and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

-x-x-x- nothing follows -x-x-x-

Approved by:

**The Board of Directors**



**ALFREDO M. YAO**  
Chairman/Director

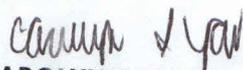
**ARMANDO M. YAO**  
Director



**ANTONIO I. PANAJON**  
Director



**JEFFREY S. YAO**  
Director



**CAROLYN S. YAO**  
Director

**MARY GRACE S. YAO**  
Director



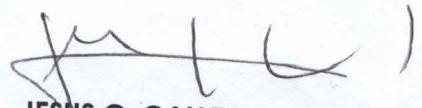
**ROBERTO A. ATENDIDO**  
Director



**FERNANDO R. BALATBAT**  
Director



**ALBERT S. TORIBIO**  
Director



**JESUS G. GALLEGOS, JR.**  
Director



**ROBERTO F. ANONAS, JR.**  
Director