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# REVISED MANUAL ON CORPORATE GOVERNANCE



## SINOPHIL CORPORATION

05 June 2014



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# REVISED MANUAL ON CORPORATE GOVERNANCE

## SINOPHIL CORPORATION

The Board of Directors (the “Board”), Executive Committee, Management and Staff of Sinophil Corporation (the “Company”), hereby commit themselves to an open governance process through which its shareholders and other stakeholders may derive assurance that, in protecting and adding value to Sinophil’s financial and human investment, the Company is being managed ethically, according to prudently determined risk parameters, and striving to achieve local best practices.

### Part I – OBJECTIVE

This manual shall institutionalize the principles of good corporate governance in the entire Company.

The Company believes that corporate governance, the framework of rules, systems and processes governing the performance of the Board of Directors and Management of their respective duties and responsibilities, and from which the organization’s values and ethics emerge, is of utmost importance to the Company’s shareholders and other stakeholders, which include, among others, clients, employees, suppliers, financiers, government and community in which it operates. The Company will therefore undertake every effort possible to create awareness throughout the entire organization.

### Part II – COMPLIANCE SYSTEM

#### 2.1. COMPLIANCE OFFICER

2.1.1. To insure adherence to corporate principles and best practices, the Company shall appoint a Compliance Officer who shall monitor the progress and status of the Company’s corporate governance activities.

2.1.2. The Compliance Officer shall be the Corporate Secretary, unless the Board explicitly appoints another officer of the Company.

2.1.3. The primary objectives and functions of the Compliance Officer are as follows:

- To promote awareness of good corporate governance and accountability within the Company;
- To monitor compliance with the provisions and requirements of this Manual, determine violations, and recommend penalty for violation thereof for further review and approval by the Board;
- To ensure compliance with the Code of Corporate Governance of the Philippines;
- To submit a report to the Securities and Exchange Commission (“SEC”) on the extent of the Corporation’s compliance with this Manual, using the guidelines stated on SEC Memo Circular #5 Series of 2013 dated March 20, 2013;



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- Appear before the Securities and Exchange Commission (“SEC”) on behalf of the Company, on similar matters that need to be clarified;
  - Plan and organize seminars for the continuing progression of all the directors and senior management in the Company.

2.1.4. The appointment of the Compliance Officer shall be immediately disclosed to the SEC on SEC Form 17-C. All correspondence relative to his functions as such shall be addressed to said Officer.

## 2.2. THE BOARD OF DIRECTORS

2.2.1. It shall be 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 shareholders and other stakeholders. In particular, the Board shall:

- a. Be responsible to the shareholders and other stakeholders for the good standing of the Company, the management of its assets for optimum performance and the strategy for its future development.
- b. Set the strategic objectives of the Company, establish the Company’s vision and mission, determine investment policy, agree on performance criteria and delegate to management the detailed planning and implementation of that policy, in accordance with appropriate risk parameters.
- c. Monitor compliance with policies, and achievement against objectives, by holding management accountable for its activity through the measurement and control of operations by regular reports to the Board, including monthly performance reporting and budget updates.
- d. ~~Conduct itself with utmost honesty and integrity in the discharge of its duties and responsibilities, and shall act in a manner characterized by transparency, accountability and fairness.~~

2.2.2. The Board shall be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties and responsibilities.

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

- a. To conduct fair business transactions with the Company and to ensure that personal interest does not bias Board decisions. He shall not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality, and should an actual or potential conflict of interest should arise, he should fully and immediately disclose the same and should not participate in the decision-making process.

A conflict of interest situation arises when the director’s personal or business interest is antagonistic to that of the Company, or that he stands to acquire or gain financial advantage at the expense of the Company.



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- b. To devote time and attention necessary to properly discharge his duties and responsibilities. He should devote sufficient time to familiarize himself with the Company's business. He should be constantly aware of, and knowledgeable with, the Company's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials, and, if called for, ask questions or seek explanation.
  - c. To act judiciously. He shall evaluate the issues, ask questions and seek clarifications necessary before deciding on any matter brought before the Board.
  - d. To exercise independent judgment. He shall view each problem or situation objectively. Should a disagreement with other directors arise, he should carefully evaluate and explain his position. He should not be afraid to take unpopular positions if he thinks such ideas are beneficial to the Company.
  - e. To have a working knowledge of the statutory and regulatory requirements affecting the Company, including the contents of its articles of incorporation and by-laws, the requirements of the SEC, and, where applicable, the requirements of other regulatory agencies. He shall also keep himself informed of industry developments and business trends in order to safeguard the Company's competitiveness.
  - f. To observe confidentiality. He should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He shall not disclose any information to any other person without the authority of the Board or the Executive Committee.
  - g. To ensure the continuing soundness, effectiveness and adequacy of the Company's internal control environment.
  - h. To identify the Company'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.

2.2.4. The Company's directors shall be elected at each annual meeting of the stockholders, to serve for a term of one (1) year. Each director shall be eligible for re-election in accordance with the Articles of Incorporation of the Company. The names of directors submitted for election or re-election shall be accompanied by sufficient biographical details to enable shareholders to make an informed decision in respect of their election. As provided in the Corporate Governance Code of the Philippines and in compliance thereof, at least two (2) of the directors shall be Independent Directors. All directors shall have access to the advice and services of the Corporate Secretary and, if necessary, shall be able to take independent professional advice in the furtherance of their duties at the Company's expense.

2.2.5. All newly-elected members of the Board of Directors shall, before assuming as such, be required to attend a seminar on corporate governance which shall be conducted by a training providers that are duly accredited by the SEC. Thereafter, all members of the Board of Directors and key officers of the Company shall attend a program on corporate governance at least once a year, required by SEC as stated on SEC Memorandum Circular No. 20 Series of 2013.



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2.2.6. The Board shall meet regularly to determine and monitor the Company's strategy, to review the operations and financial performance of the Company and to consider matters specifically reserved for its approval. Independent views during Board meetings shall be minuted and shall be given due consideration. Special meetings of the Board of Directors may be called by or at the request of the President or Chairman of the Board, or any four directors.

2.2.7. The Board shall delegate specific responsibilities to board committees with defined terms of reference.

### **2.3. THE EXECUTIVE COMMITTEE**

2.3.1. The Board shall create an Executive Committee by resolution or resolutions passed by a majority of all its members.

2.3.2. Members of the Executive Committee, which shall have at least three (3) members, shall be appointed by the Board from among its members.

2.3.3. The Executive Committee shall meet regularly or may call for special meetings to exercise all duties delegated to it by the Board.

2.3.4. All decisions or actions made by the Executive Committee during regular and special meetings shall be minuted and presented to the Board for ratification.

2.3.5. The Board shall have the power to change the members of the Executive Committee at any time, or to fill vacancies therein.

### **2.4. NOMINATION COMMITTEE**

2.4.1. The Board shall create, by resolution or resolutions passed by majority of its members, a Nomination Committee, which consists of at least three (3) members of the Board, one (1) of whom must be independent.

2.4.2. The Nomination Committee shall carry out the following tasks:

- a. To ensure that the Board has an appropriate balance of required industry knowledge, expertise and skills needed to govern the Company towards achieving its intended goals and objectives.
- b. To review and evaluate all candidates nominated to Officer positions in the Company that, under the Company's By-Laws, require Board approval prior to effectivity of such Officer appointments or promotions.
- c. To shortlist, assess and evaluate all candidates nominated to become a member of the Board in accordance with the following qualifications and disqualifications:

#### **Qualifications of Directors**

In addition to the qualifications for membership in the Board provided for in the Corporation Code, the Securities Regulation Code, and other relevant laws, the Nomination Committee may likewise consider the following factors, among others, in determining the fitness of a nominee to the Board:

- i. college education or equivalent academic degree;
- ii. practical understanding of the business of the Company;



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- iii. membership in good standing in relevant industry, business, or professional organizations; and,
  - iv. previous business experience.

### **Disqualification of Directors**

The following shall be grounds for the permanent disqualification of a director:

- 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 Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasibank, 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, quasibank, 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.
- iii. 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 Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, 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;
- iv. 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;
- v. 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



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Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;

- vi. Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;
- vii. Any person judicially declared to be insolvent;
- viii. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in subparagraphs (i) to (v) above;
- ix. Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.

#### **Temporary Disqualification of Directors**

The Board may also provide for the temporary disqualification or suspension of a director for the following reasons:

- i. Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.
- ii. Absence in more than fifty (50) percent of all regular and special meetings of the Board 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. The disqualification shall apply for purposes of the succeeding election.
- iii. Dismissal or termination for cause as director of any corporation covered by the SEC's Code of Corporate Governance. The disqualification shall be in effect until he has cleared himself from 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 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 temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.





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### **Additional Qualifications for Independent Directors**

In addition to the foregoing qualifications disqualifications, a director nominated and elected as independent shall likewise meet the following requirements:

- i. He is not a director or officer of the Company or of its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing.
- ii. He does not own more than two percent (2%) of the shares of the Company and/or of its related companies or any of its substantial shareholders.
- iii. He is not a related to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial shareholder. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister.
- iv. He is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement.
- v. He has not been employed in any executive capacity by the Company, any of its related companies, and/or by any of its substantial shareholder within the last five (5) years.
- vi. He is not retained as professional adviser by the Company, and/or any of its related companies and/or any of its substantial shareholders within the last five (5) years.
- vii. He is not retained, either personally or through his firm or any similar entity, as professional adviser, by the Company, any of its related companies and/or any of its substantial shareholders, either personally or through his firm.
- viii. He has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.

For purposes of the foregoing, a “related company” of the Company shall be any of the following: (i) its parent company, (ii) its subsidiaries, or (iii) subsidiaries of its parent company. Also, a “substantial shareholder” shall mean any person who, directly or indirectly, beneficially owns more than ten percent (10%) of any class of security issued by the Company.



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- d. In consultation with the Executive Committee, the Nomination Committee shall 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.
  - e. The following guidelines shall be considered by the Nomination Committee in the determination of the number of directorships for the Board:
    - i. The nature of the business of the corporations which he is a director;
    - ii. Age of the director;
    - iii. Number of directorships/active memberships and officerships in other corporations or organizations; and
    - iv. Possible conflict of interest.

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

2.4.3. The Nomination Committee shall ensure that all shareholders of the Company shall have an opportunity to nominate candidates for election to the Board of Directors during the Company's Annual Shareholders' Meetings, in accordance with the Company's By-Laws.

## **2.5. COMPENSATION AND REMUNERATION COMMITTEE**

2.5.1. The Board shall create, by resolution or resolutions passed by majority of its members, a Compensation and Remuneration Committee, which consists of at least three (3) members of the Board, one (1) of whom must be independent.

2.5.2. The Compensation and Remuneration Committee's overall strategy is to ensure that employees are rewarded for their contribution to the Company's operating and financial performance.

2.5.3. The Compensation and Remuneration Committee shall carry out the following tasks:

- a. Establish a formal and transparent procedure for developing policies and for fixing the remuneration packages of directors, executives and other key senior personnel;
- b. Designate amount of remuneration, which shall be in a level sufficient to attract directors, executives and other key senior personnel needed to run the company 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 own remuneration;
- e. Submit to the Compliance Committee, for publication in the Annual Report, a concise and understandable disclosure of compensation of its directors and executive officers for the previous year and the ensuing year;



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- f. Develop a Personnel Handbook covering the same parameters of governance stated above.

## **2.6. AUDIT COMMITTEE**

2.6.1. The Board shall also create, by resolution or resolutions passed by majority of its members, an Audit Committee, which consists of at least three (3) members of the Board, preferably with accounting or finance background, one (1) of whom shall be an independent director and another should have related audit experience. Each committee member shall have adequate understanding or competence of the Company's financial management systems and environment.

2.6.2. The Audit Committee shall carry out the following tasks:

- 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 Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities.
- c. Perform oversight functions over the Company'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 Company. The plan shall include the 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 Company's internal control system, including financial reporting control and information technology security.
- h. Review the reports submitted by the internal and external auditors.
- i. Review the quarterly, half-year, and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - i. Any change/s in accounting policies and practices



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- ii. Major judgmental areas
  - iii. Significant adjustments resulting from the audit
  - iv. Going concern assumptions
  - v. Compliance with accounting standards
  - vi. Compliance with tax, legal, and regulatory requirements.
- j. Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- k. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his 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. He shall functionally report directly to the Audit Committee.

The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.

For Philippine branches or subsidiaries of foreign corporations covered by this Code, their Internal Auditor should be independent of the Philippine operations and should report to the regional or corporate headquarters.

## **2.7 RISK MANAGEMENT COMMITTEE**

2.7.1. The Board may also create, by resolution or resolutions passed by majority of its members, a Risk Management Committee, which shall consist of at least three (3) members of the Board, one (1) of whom shall be an independent director.

2.7.2. The Risk Management Committee shall carry out the following tasks:

- a. Oversee the Company's risk management function.
- b. Develop a formal risk management policy that guides the Company's risk management and compliance processes and procedures.
- c. Design and undertake its enterprise-wide risk management activities in accordance with internationally recognized frameworks.
- d. Discuss and review policies with respect to risk assessment and risk management including the company's major financial and business risk exposures and the actions Management has undertaken to control them.



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- e. Set the tone and influence the culture of risk management which includes determining the appropriate risk appetite (risk-taker or risk-averse) or level of exposure as a whole or on any relevant individual issue; determining what types of risk are acceptable and which are not.
  - f. Monitor the management of significant risk to reduce the likelihood of unwelcome surprises.
  - g. Satisfy itself that less significant risks are being actively managed with the appropriate controls in place and working effectively.
  - h. Annually review the Company's approaches to risk management and recommend to the Board changes or improvements to key elements of its processes and procedures.

## **2.8. THE CHAIRMAN OF THE BOARD OF DIRECTORS**

2.8.1. The Company shall have a Chairman of the Board of Directors (Chairman) who shall be elected in accordance with the provisions of the By-Laws.

2.8.2. As much as practicable, the roles of the Chairman and the President and Chief Executive Officer (CEO) shall be separate to foster an appropriate balance of power, increased accountability, and better capacity for independent decision-making by the Board. A clear delineation of functions should be made between the Chairman and the President and CEO upon their election.

2.8.3. In the event that the positions of Chairman and President and CEO shall be unified, the proper checks and balances should be laid down to ensure that the Board gets the benefit of independent views and perspectives.

2.8.4. In addition to the functions of the Chairman as provided in the By-Laws, he shall also be responsible for the following:

- a. Ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman shall deem necessary.
- b. Supervise the preparation of the agenda of each meeting of the Board, the Shareholders, and any of the committees of the Board with the Corporate Secretary, taking into account the suggestions of the President and CEO, Management, and the other directors.
- c. Maintain qualitative and timely lines of communication and information between the Board and Management.

## **2.9. THE PRESIDENT AND CHIEF EXECUTIVE OFFICER**

2.9.1. The Company should have a President and Chief Executive Officer (CEO). At the option of the Board, a person other than the President may be designated CEO, at which instance the President may be designated Chief Operating Officer (COO). The President and CEO positions should both be held by Filipino citizens. Being the principal officers of the Company, the President and CEO shall be a person of outstanding knowledge and integrity. The President and CEO shall



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work and deal fairly and objectively with all the constituencies of the Company, namely, the Board, management, and stockholders and other stakeholders.

2.9.2. Subject to the control of the Board of Directors, the President and CEO shall:

- a. Supervise and control all of the business and affairs of the Company;
- b. In the absence of the Chairman or the Vice Chairman of the Board, preside at all meetings of the Board of Directors and stockholders. If the President and CEO positions are not held by one individual, then the CEO shall preside unless absent, in which case the President shall preside;
- c. Together with other officers designated by the Board, sign all checks, drafts, or other orders with respect to any funds of the Company maintained in any bank, certificates of stock of the Company, any deed, mortgage, bond, contract, or other instrument which the Board of Directors has authorized to be executed;
- d. Perform all duties incident to the office(s) of the President and CEO, and such other duties as may be prescribed by the Board of Directors from time to time.

## **2.10. THE CORPORATE SECRETARY**

2.10.1. The Corporate Secretary, who shall be a Filipino citizen and resident, is an officer of the Company. Perfection in performance and no surprises are expected of him. His loyalty to the mission, vision and specific business objectives of the Company come with his duties.

2.10.2. The following shall be the specific duties and responsibilities of the Corporate Secretary:

- a. Be responsible for the safekeeping and preservation of the integrity of the minutes of the meeting of the Board and its committees, as well as other official records of the Company.
- b. Work fairly and objectively with the Board, Management, and stockholders and other stakeholders.
- c. Have appropriate administrative and interpersonal skills.
- d. If he is not at the same time the Company's legal counsel, to be aware of the laws, rules, and regulations necessary in the performance of his duties and responsibilities.
- e. Have a working knowledge of the operations of the Company.
- f. Inform that members of the Board, or of the committees of the Board, as the case may be, in accordance with the 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.
- f. Attend all Board meetings except when justifiable causes, such as illness, death in the immediate family, and serious accidents prevent him from doing so.
- g. Ensure that all Board and committee procedures, rules, and regulations are strictly followed by members.



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- h. If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in the SEC's Code of Corporate Governance.

## **2.11. THE EXTERNAL AUDITOR**

2.11.1. The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide and perform an objective assurance on the preparation and presentation of financial statements.

2.11.2. The Company shall not appoint an external auditor to do the services of an internal auditor. Likewise, other non-audit work provided for the Company by the external auditor should not be in conflict with the functions of the external auditor.

2.11.3. The reasons for the resignation, dismissal or cessation from service and the date thereof of the external auditor shall be disclosed in the Company's annual and interim reports. Such 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.

2.11.4. If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement are incorrect or incomplete, he shall present his views in said reports.

## **2.12. THE INTERNAL AUDITOR**

2.12.1. The Company shall have in place an independent internal audit function which shall be performed by an Internal Audit Manager or a group of internal audit personnel, through which the Board, senior management, and stockholders shall be provided with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate, and complied with.

2.12.2. The minimum internal control mechanisms for management's operational responsibility shall center on the President, being ultimately accountable for the Company's organizational and procedural control.

2.12.3. 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.

2.12.4. The system of internal control shall be designed to manage, rather than eliminate, the risk of failure to achieve business targets and objectives and shall provide reasonable, although not absolute assurance against material misstatement or loss.

2.12.5. The Internal Auditor shall report to the Audit Committee. However, direction may be provided by the President and/or Head of the Finance Division, with respect to internal coordination with other Divisions of the Company.



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## **PART III – COMMITMENT TO CORPORATE GOVERNANCE**

- 3.1. This manual shall be available for inspection by any stockholder of the Company during office hours.
- 3.2. All directors, executives, division and department heads are tasked to ensure thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.
- 3.3. The Chief Financial Officer, or Head of the Finance Division, shall be responsible for circulating a copy of this Manual to all Division heads.
- 3.4. The Compliance Committee shall be responsible for coordinating with all Divisions to ensure that this manual is operational.

## **PART IV – REPORTORIAL OR DISCLOSURE SYSTEM OF COMPANY'S CORPORATE GOVERNANCE POLICIES**

- 4.1. The reports or disclosures required under this Manual shall be prepared and submitted to the SEC by the respective committee through the Compliance Committee
- 4.2. The Board shall commit at all times to publicly and timely disclose material information relative to the Company. It shall cause the filing of all required information for the interest of the Company's stockholders and other stakeholders.
- 4.3. All material information that, the judgment of the Board or the Company's management, could potentially affect share price in a significant manner, shall be publicly disclosed, so long as such disclosure does not violate regulations of the SEC, the Philippine Stock Exchange ("PSE") or any governmental body, nor any legal or binding agreement. Such information shall include but shall not be limited to earnings results, acquisition or disposal of significant assets, board changes, material related party transactions, shareholdings of directors and change of ownership.
- 4.4. All disclosed information shall be released via the approved PSE procedure for company announcements, as well as through the annual report.

## **PART V – STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS**

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

### **5.1. VOTING RIGHT**

- 5.1.1. Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code of the Philippines. Minority shareholders shall have the right to nominate candidates for election to the Board during the Company's Annual Shareholders' Meetings, in accordance with the Company's By-Laws.





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5.1.2. Election of Directors shall take place during the Annual Stockholders' Meeting of the Company. As mandated by the Corporation Code, cumulative voting shall be used in the election of directors.

5.1.3. The Board shall be transparent and fair in the conduct of the meetings of the shareholders. The shareholders shall be encouraged to personally attend such meetings, and that if they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-Laws, the right to designate a proxy shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in favor of the shareholder.

5.1.4. Although directors may be removed with or without cause, a director shall not be removed without cause if it will deny minority shareholders representation in the Board.

## **5.2. POWER OF INSPECTION**

5.2.1. The Company shall allow all stockholders to inspect books and records of the Company including minutes of Board meetings and stock registries in accordance with the Corporation Code, and during normal business hours.

5.2.2. Annual reports, including financial statements, shall be provided to stockholders, without cost or restrictions.

## **5.3. RIGHT TO INFORMATION**

5.3.1. The Company recognizes that the essence of corporate governance is transparency, hence, the more transparent the internal workings of the Company, the more difficult it will be for Management and dominant shareholders to mismanage the Company or misappropriate its assets.

Towards this end, the Board shall ensure that all material information about the Company which could adversely affect its viability or the interests of the shareholders shall be publicly and timely disclosed. Such information shall include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, remuneration of directors and Management; all of which shall be disclosed through established disclosure procedures of the stock exchange and of the SEC.

5.3.2. Upon request, the Company shall provide the stockholders with periodic reports and information about directors and officers, and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among directors and key officers, and the aggregate compensation of directors and officers.

5.3.3. 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.

5.3.4. The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management should include in such information. If not included, the minority shareholders can propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".



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## **5.4. RIGHT TO DIVIDENDS**

5.4.1. Subject to the discretion of the Board, all stockholders shall have the right to receive dividends.

5.4.2. The Company shall be compelled to declare dividends when its retained earnings shall be 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;
- b. When the Company is prohibited from declaring dividends under any loan agreement with any financial institution or creditor, whether local or foreign, without its consent, and such consent has not been secured;
- c. When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

## **5.5. APPRAISAL RIGHT**

5.5.1. The stockholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided under Section 82 of the Corporation Code, 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;
- c. In case of merger or consolidation.

The appraisal right may be exercised by any stockholder by making a written demand on the Corporation within thirty (30) days, for payment of the fair value of his shares.

## **5.6. PROMOTION OF SHAREHOLDERS' RIGHTS**

5.6.1. It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' 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 stockholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of stockholder information necessary to make informed decisions subject to legal constraints.



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## PART VI – MONITORING AND ASSESSMENT

- 6.1. Each Committee shall report directly to the Board of Directors.
- 6.2. The Compliance Committee shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officers, or employees to the penalty provided under Part VII of this Manual.
- 6.3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Company's annual report (SEC Form 17-A) or in such form or report that is applicable to the Corporation. The adoption of such performance evaluation system shall be covered by a Board approval.
- 6.4. This Manual shall be subject to annual review unless the same frequency is amended by the Board.
- 6.5. All business processes and practices being performed within any division of Sinophil Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to the compliant extent.

## PART VII – PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL

- 7.1. To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Company'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 warned, reprimanded or suspended depending on the severity of the violation. Any first violation that results in any notable financial loss for the Company shall be at least reprimanded or suspended.
  - b. A **second violation** may require suspension depending on the gravity of the violation.
  - c. For the **third violation**, the maximum penalty of removal from office may be imposed. When removed, the subject directors, officers, or staff of the Company or its subsidiaries and affiliates, shall not be granted additional benefits except those required by law.
- 7.2. The Compliance Committee shall be responsible for determining violations through notice and hearing and shall recommend to the Chairman of the Board the impossible penalty for such violation, for further review and approval of the Board.

*Adopted on 06 June 2014.*

