

# PrimeOrion Philippines, Inc.

28 October 2015

## SECURITIES AND EXCHANGE COMMISSION

SEC Bldg., EDSA, Greenhills  
Mandaluyong City

Attention : **ATTY. JUSTINA F. CALLANGAN**  
Director  
Corporate Governance and Finance Department

Re : **Prime Orion Philippines, Inc. (POPI)**  
- Updates to the Annual Corporate Governance Report (ACGR)


Gentlemen:

In compliance with *Securities and Exchange Commission Memorandum Circular No. 1, Series of 2014*, please be advised that the following changes have been reflected in POPI's ACGR:

1. In Section D (Remuneration Matters)
  - a. In Item 3, the amounts on Aggregate Remuneration and Other Benefits were updated.
  - b. In Item 5, the amount of Total Remuneration of Management was updated.
2. In Section E (Board Committees)
  - In Item 4 (Work Done & Issues Addressed), the periods for works done by the Audit Committee and Compensation and Remuneration Committee were updated.
3. In Section G (internal Audit and Control)
  - a. Items 1 (b) and (c) were updated (re: period of review).
  - b. Item 2 (d) was updated (re: no resignation of audit staff in FY 2015).
4. In Section I (Disclosure and Transparency)
  - a. In Item (3), the information on auditor's fee for FY 2014-2015 was updated.
  - b. In Item (5), the date of release of audited financial report was updated.
  - c. In Item (7), the disclosure on Related Party Transactions was updated.

Attached are the relevant pages of the ACGR (The changes have been underscored for easy reference). The above updates to the ACGR may also be accessed or viewed at our website: [www.primeorion.com](http://www.primeorion.com).

Very truly yours,

  
**ATTY. DAISY L. PARKER**  
Corporate Secretary/Compliance Officer

**Prime Orion Philippines, Inc.**

**Annual Corporate Governance Report** (updated portions as of 28 Oct. 2015)

**D. REMUNERATION MATTERS**

1) *Remuneration Process*

*Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers.*

<b>Process</b>	<b>CEO</b>	<b>Top 4 Highest Paid Management Officers</b>
(1) Fixed remuneration	Based on qualifications, tenure, performance and industry practice Yearly merit increase is provided based on the performance of the Group, subject to Board approval	Based on qualifications, tenure, performance and industry practice Yearly merit increase is provided based on the performance of the Group and in accordance with the established annual merit increase, subject to Board approval
(2) Variable remuneration	N/A	N/A
(3) Per diem allowance	Based on company's performance, industry practice and as approved by the Board	Based on industry practice
(4) Bonus	Determined yearly based on the company's performance and individual performance for the year, subject to Board approval	Determined yearly based on the company's performance and individual performance for the year, subject to Board approval
(5) Stock options and other financial instrument	N/A	N/A
(6) Others (specify)	Director's Fee	Director's Fees for executive directors

2) *Remuneration Policy and Structure for Executive and Non-Executive Directors disclose the Company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.*

The Human Resources Department of the Corporation implements the Corporation's policy on remuneration and structure of compensation package.

	<b>Remuneration Policy</b>	<b>Structure of Compensation Package</b>	<b>How compensation is Calculated</b>
Executive Directors	Based on qualification, tenure, performance and industry practice	Fixed compensation and bonus and Director's Fees	Yearly merit increase is provided based on the performance of the Group and in accordance with the established annual merit increase, subject to Board approval Director's fees are as may approved by the

			Board, subject to the By-laws and industry practice.
Non-executive Directors	Based on By-laws	Director's Fees and bonus as may be approved by the Board	As may be approved by the Board

*Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.*

The stockholders ratify at the annual stockholders' meeting, all the acts and resolutions of the Management and the Board of Directors, which includes the approval of director's fees.

Remuneration Scheme	Date of Stockholders' Approval
<p>The stockholders granted authority to the Board of Directors to set per diems each year in accordance with the Corporations' By-laws.</p> <p>Subject to the approval of the stockholders, the Board of Directors is authorized to fix the per diems of the directors attending board meetings, executive committee meetings and other committee meetings. The amounts of the per diem shall be guided by reasonableness and industry practice. (Section 10, Article III of the By-laws)</p> <p>An amount equivalent to five percent (5%) of net income before tax in each year shall be paid and distributed at the Board's discretion, to the members of the Board, the Executive Committee and officers of the Corporation (Section 12, Article III of the By-laws)</p>	14 November 2005

3) *Aggregate Remuneration (Amounts in millions)*

*Complete the table on the aggregate remuneration accrued during the most recent year (in millions).*

Remuneration Item	Executive Directors	Non-Executive Directors (other than Independent Directors)	Independent Directors
(a) Fixed remuneration	P27.03	N/A	N/A
(b) Variable remuneration	N/A	N/A	N/A
(c) Per diem allowance	P2.2	P0.6	P1.3
(d) Bonuses	P7.6	P0.5	P1.0
(e) Stock options and other financial instrument	N/A	N/A	N/A
(f) Others (specify)	N/A	N/A	N/A
<b>Total</b>	<b>P36.8</b>	<b>P1.1</b>	<b>P2.3</b>

Other Benefits	Executive Directors	Non-Executive Directors (other than Independent Directors)	Independent Directors
(1) Advances	N/A	N/A	N/A
(2) Credit granted	N/A	N/A	N/A
(3) Pension Plan/s Contributions	N/A	N/A	N/A
(4) Pension Plans., Obligations incurred	N/A	N/A	N/A
(5) Life Insurance Premium	P0.36	N/A	N/A
(6) Hospitalization Plan	P2.4	N/A	N/A
(7) Car Plan	N/A*	N/A	N/A
(8) Others (specify)	N/A	N/A	N/A
<b>Total</b>	<b>P2.76</b>		

\*The Company provides a company car to the Executive Directors

#### 4) Stock Rights, Options and Warrants

##### (a) Board of Directors

Complete the table, on the members of the Company's Board of Directors who own or are entitled to stock rights, options or warrants over the Company's shares.

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
No member of the Board of Directors owns or is entitled to stock rights, options or warrants over the Company's shares.	N/A	N/A	N/A	N/A

##### (b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting.

Incentive Program	Amendments	Date of Stockholders' Approval
Except for the Employees' Stock Option Plan which was approved by the stockholders on 14 December 2009, there were no incentive programs introduced, amended or discontinued. The terms and conditions of the 2009 stock option plan have yet to be determined.  On 13 August 2015, the Board of	N/A	N/A

Directors approved the Terms and Conditions of the Company's Stock Ownership Plan. A request for exemption from registration of the Plan was filed by the Company on 27 August 2015 with the SEC.		
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5) *Remuneration of Management*

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year.

Name of Officer/Position	Total Remuneration
Ma. Rhodora dela Cuesta/VP-Legal, Asst. Corp. Sec.	P7.06 M
Edwin M. Silang/AVP-Group Human Resources	
Victor V. Rafael/Manager-Corporate and Financial Planning Manager	

**E. BOARD COMMITTEES**

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4) *Work Done and Issues Addressed*

Describe the work done by each Committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Audit and Risk Management Committee	Prepared and/or presented to the Board of Directors for approval the audited financial statements for Fiscal Year (FY 2014-2015) and the quarterly reports for FY 2014-2015; Conducted self-assessment of the performance of the Audit Committee Recommended the appointment of SGV as external auditors of the Company	There were no issues to be addressed
Nomination Committee	Confirmed the Final List of Nominees for Directors for FY 2014-2015 Approved the Nomination Committee Charter	No issues to be addressed
Compensation and Remuneration Committee	Made recommendations for adjustment of salaries of executives and employees Recommended the director's fee and Board Committee member's fee (for FY 2014-2015)	No issues to be addressed

## F. RISK MANAGEMENT PROGRAM

### 1) Disclose the following:

- (a) Overall risk management philosophy of the Company.
- (b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof.
- (c) Period covered by the review.
- (d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness.
- (e) Where no review was conducted during the year, an explanation why not.

The risk management policy of the Company is already developed while the implementation of the risk management system which includes identification of the risk exposure, possible risk treatment and control system are still ongoing. The risk management system which is currently being implemented by the different responsible departments within the Company is expected to be completed before the end of fiscal year 2015.

### 2) Risk Policy

#### (a) Company

Give a general description of the Company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk.

Risk Exposure	Risk Management Policy	Objective
N/A	The Company is in the process of identifying possible treatments for risk exposures.	

#### (b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk.

Risk Exposure	Risk Management Policy	Objective
N/A	The Group's risk management system is being developed. The responsible departments are now identifying possible treatments for risk exposure.	

#### (c) Minority Shareholders

Indicate the principal risk of the exercise of the controlling shareholders' voting power.

The Company implements cumulative voting of directors, prohibits the removal of a director if it would deny the minority shareholders representation in the Board (Section 8.1.2.3 of the Manual), and recognizes the appraisal right of shareholders (Section 8.1.7 of the Manual).

### 3) Control System Set Up

#### (a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the Company.

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
N/A		

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the Company.

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
N/A		

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions.

Committee/Unit	Control Mechanism	Details of its Functions
N/A		

## G. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

Disclose the following information pertaining to the internal control system of the Company:

(a) Explain how the internal control system is defined for the Company.

Internal Control system is designed to provide reasonable assurance to the achievement of the objectives on the effectiveness and efficiency of operation, reliability of financial reporting, compliance with applicable laws and regulations, and safeguarding of the assets of the Company. These internal control systems are monitored and evaluated on a regular basis to ensure that they are functioning properly and effectively through a regular review of control environment, risk assessment, control activities, information and communication and monitoring.

#### Financial and Operational Control

The Company's disclosure controls and procedures include without limitation controls and procedures that are designed to ensure that information required to be disclosed in reports filed or submitted is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our Company's management, including the President and CFO, as appropriate, to allow timely decisions regarding required disclosure.

#### Compliance

The Company's corporate compliance is managed by the Corporate Secretary and Internal Audit/Compliance Department. This unit endeavors to ensure that our policies, corporate decisions and business activities are done in compliance with prevailing law

and regulations, both internal and external. The Company proactively implements compliance policies at the business unit level and the transactional level. Its compliance activities in 2013 included:

- a. Supporting business activities with legal advice by delivering legal opinions on planned actions and issues in relation to their compliance with the applicable laws or regulations (legal advisory);
- b. Conducting a risk and legal review of planned business initiatives, policies and planned cooperation (legal review of business & policy initiatives); and
- c. Settlement of litigation and non-litigation cases (litigation).

#### Evaluation on the Effectiveness of Internal Audit Management's Report on Internal Control over Financial Reporting

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed by, or under the supervision of, our CFO, and executed by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS as issued by the IASB and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS, and that receipts and expenditures of our Company are being made only in accordance with authorizations of management and Directors of our Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our Company's assets that could have a material effect on the Consolidated Financial Statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

- (b) *A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate.*

Under the supervision and with the participation of the Company's President, Chief Finance Officer and the Group Compliance, management conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as of 30 June 2015. Based on this evaluation, Management has concluded that, as of 30 June 2015, the Company's disclosure controls and procedures were effective.

- (c) *Period covered by the review.*  
The review covers the period of 1 July 2014 to 30 June 2015.
- (d) *How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system.*

The internal controls are reviewed annually and based on the reports of the Audit Committee on the audit areas covered during the year.

- (e) *Where no review was conducted during the year, an explanation why not.*  
N/A



2) *Internal Audit*

(a) *Role, Scope and Internal Audit Function*

*Give a general description of the role and scope of internal audit work and other details of the internal audit function.*

The Internal Audit Function sees to it that the Company's key organizational and procedural controls are effective, appropriate, and complied with, and shall be guided by the International Standards on Professional Practice of Internal Auditing.

<b>Role</b>	<b>Scope</b>	<b>Indicate whether In-house or Outsource Internal Audit Function</b>	<b>Name of Chief Internal Auditor/Auditing Firm</b>	<b>Reporting Process</b>
Active	Review and Evaluation of Control Functions- all Subsidiaries	In-house		Reports to President and Audit Committee
Active	Providing Assurance and Internal Consulting Service-All Subsidiaries	In-house		President and CFO
Active	Monitoring and Reporting Application of Control Functions- All Subsidiaries	In-house		President; CFO and Audit Committee

(b) *Do the appointment and/or removal of the Internal Auditor or the accounting/auditing firm or corporation to which the internal audit function is outsourced require the approval of the Audit and Risk Committee?*

Yes. Section 4.2.2.3.2 of the Manual tasks the Audit and Risk Committee to organize an internal audit department, and consider the appointment of an independent internal auditor and terms and conditions of its engagement and removal.

The Internal Audit Head is appointed and discharged by President and require the approval of the Audit and Risk Committee.

(c) *Discuss the internal auditor's reporting relationship with the Audit Committee. Does the internal auditor have direct and unfettered access to the Board of Directors and the audit committee and to all records, properties and personnel?*

Sections 4.2.5.2 and 4.2.2.3.2 of the Manual provide that the internal auditor shall functionally report directly to the Audit and Risk Committee. In addition, Section 4.2.5.1 of the Manual provides that the Internal Auditor shall submit to the Audit and Risk Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit and Risk Committee. The internal auditor shall have unrestricted access to all the Corporation's records, properties and personnel to enable them to perform their audit functions.

Internal Audit is an independent unit to other units within the Company and reports directly to the President and Audit and Risk Committee.

(d) *Resignation, Re-assignment and Reasons*

*Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third party auditing firm) and the reason/s for them.*

<b>Name of Audit Staff</b>	<b>Reason</b>
No Audit Staff resigned in <u>FY 2014-2015</u>	N/A

(e) *Progress against Plans, Issues, Findings and Examination Trends*

*State the internal audit's progress against plans, significant issues, significant findings and examination trends.*

<b>Progress Against Plans</b>	Internal Audit completed the various audit activities and other consultancy services in accordance with the approved Audit Master Plan
<b>Issues</b>	Summarized issues and findings gathered during the audit process and discussed with auditees for resolution
<b>Findings</b>	
<b>Examination Trends</b>	Identified recurring issues and findings and initiated immediate corrective actions.

(f) *Audit Control Policies and Procedures*

*Disclose all internal audit controls, policies and procedures that have been established by the Company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."*

<b>Policies &amp; Procedures</b>	<b>Implementation</b>
Investments and Capital Expenditures	Implemented
Revenue Cycle- Various Procedures	Implemented
Disbursements and Payment to Government Agencies	Implemented
Operation Policies and Procedures- complete	Implemented

(g) *Mechanism and Safeguards*

*State the mechanism established by the Company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions*

## I. DISCLOSURE AND TRANSPARENCY

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### 3) External Auditor's Fee

Name of Auditor	Audit Fee (FY 2014-2015)	Non-Audit Fee
SGV and Co.	P2,787,160.32 (inclusive of VAT)	0

### 4) Medium of Communication

List down the mode/s of communication that the Company is using for disseminating information.

- a) Disclosures to the SEC and PSE
- b) Company Website
- c) E-mail
- d) Registered mail
- e) Publication in newspapers of general circulation

5) Date of release of audited financial report: 9 October 2015

### 6) Company Website

Does the Company have a website disclosing up-to-date information about the following?

Business operations	Yes
Financial statements/reports (current and prior years)	Yes
Materials provided in briefings to analysts and media	NA
Shareholding structure	Yes
Group corporate structure	Yes
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (By-laws and Articles of Incorporation)	Yes

### 7) Disclosure of Related Party Transactions (RPT)

RPT	Relationship	Nature	Value (in Thousands) (FY 1 July 2014- 30 June 2015)
Lepanto Ceramics, Inc.	Subsidiary	Advances	P <u>5</u>
Orion I Holdings Philippines, Inc.	Subsidiary	Advances	<u>199,154</u>
OE Holdings, Inc.	Subsidiary	Advances	<u>34,089</u>
FLT Prime Insurance Corp.	Subsidiary	Charges	<u>72,968</u>
Orion Property Development, Inc.	Subsidiary	Charges	<u>79</u>
Orion Maxis Inc.	Subsidiary	Charges	<u>20,035</u>
Tutuban Properties, Inc.	Subsidiary	Charges	<u>58</u>

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the Company and in particular of its minority shareholders and other stakeholders?