

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM – ACGR**

**ANNUAL CORPORATE GOVERNANCE REPORT**

Report is Filed for the Year: **As of December 31, 2016**

Exact name of Registrant as specified in its Charter: **Cosco Capital, Inc.**

Address of Principal Office and Postal Code: **No. 900 Romualdez St., Paco, Manila**

SEC Identification Number: **147669**

BIR Identification Number: **000-432-378**

Industry Classification Code (for SEC Use only):

Issuer's Telephone Number, including area code: **(632) 523 3055**

Former name or former address, if changed from the last report: **None**

Securities registered pursuant to Section 8 and 12 of the SRC or

Sections 4 and 8 of the RSA: **Outstanding Shares of 7,375,408,964 common shares and**

**Treasury Shares of 29,854,600 common shares**

Other Matters: **ACGR Report**

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## **A. BOARD MATTERS**

### **1) Board of Directors**

Number of directors per Articles of Incorporation: 7

Actual number of directors: 7

On April 1 and June 24, 2016, the Board of Directors and stockholders of the Company approved the increase of number of directors from seven to nine, amending Article 6 of the Articles of Incorporation. The said amendment was approved by the Securities and Exchange Commission (SEC) on October 19, 2016.

#### **(a) Composition of the Board**

Director	Type	Nominator <sup>1</sup>	Date first elected	Date last elected	Elected when <sup>2</sup>	Term
Lucio L. Co	ED	Mr. Dayao	1997	June 2016	ASM	19 years
Susan P. Co	ED	Mr. Dayao	2013	June 2016	ASM	3 years
Leonardo B. Dayao	ED	Mr. Co	1997	June 2016	ASM	19 years
Eduardo Hernandez	NED	Mr. Co	1998	June 2016	ASM	18 years
Levi Labra	NED	Mr. Co	2013	June 2016	ASM	3 years
Oscar Reyes	ID	Mr. Co	2009	June 2016	ASM	7 years
Robert Cokeng	ID	Mr. Co	2013	June 2016	ASM	3 years

**(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted with emphasis on the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.**

On February 28, 2011, the Board of Directors adopted the Revised Manual on Corporate Governance issued by the SEC which contains stockholders' rights and protection of minority stockholders interests, including the following basic rights of stockholders under the Philippine Corporation Code: right to vote on all matters that require their consent or approval; right to inspect corporate books and records; right to information; right to dividends; and appraisal right.

In 2014, the Board also approved the Revised Manual on Corporate Governance adopting therein the changes and amendments recommended by the SEC in accordance with Memorandum Circular No. 9, particularly strengthening the Company's principles on Disclosure and Transparency and extending the term "stockholders" to all "stakeholders".

On April 1, 2016, the Board adopted the following amendments to the Articles of Incorporation and By-Laws with the intention of improving the corporate governance practices of the Company:

Amendment of Article 6 of the Articles of Incorporation - "SIXTH. That the number of directors of the said Corporation shall be NINE (9).

Amendment of Section 10 Article IV of the By-Laws - "Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a

<sup>1</sup> No relation with the elected directors.

<sup>2</sup> Annual Stockholders Meeting held on June 24, 2016

quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board.”

Amendment of Section 3 Article III of the By-Laws - “Section 3. Notice of Meeting – Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least thirty (30) days prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purposes for which the meeting is called. No publication of notice of meeting in public newspapers shall be required.”

**(c) How often does the Board review and approve the vision and mission?**

As often as needed.

**(d) Directorship in Other Companies**

**(i) Directorship in the Company’s Group**

The following are the members of the company’s Board of Directors who hold the office of director in other companies within its Group:

Director	Company	Type of Directorship
Lucio L. Co	Puregold Price Club, Inc.	ED, Chairman
Susan P. Co	Puregold Price Club, Inc.	ED, Vice-Chairman
Leonardo B. Dayao	Puregold Price Club, Inc.	ED, President

**(ii) Directorship in Other Listed Companies**

The following are the members of the company’s Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director	Company	Type of Directorship
Lucio L. Co	Philippine Bank of Communications and Da Vinci Capital Holdings, Inc.	ED, Chairman
Susan P. Co	Philippine Bank of Communications	NED
Leonardo B. Dayao	Philippine Bank of Communications	ED
Robert Cokeng	F&J Prince Holdings Corporation	ED
Oscar Reyes	Bank of the Philippine Islands, Manila Water Co.	NED ID
	Ayala Land, Inc.	ID
	PLDT	NED
	Manila Electric Company	ED
	Pepsi Cola Products	ED
	Basic Energy Corp.	ID

**(iii) Relationship within the Company and its Group**

Relationship among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director	Significant Shareholder	Relationship
Lucio L. Co	Susan P. Co	Wife
Susan P. Co	Lucio L. Co	Husband

**(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:**

None yet but the Company intends to adopt a guidelines setting limit on number of board seats in other companies.

**(e) Shareholding in the Company**

The following are the members of the company's Board of Directors who directly and indirectly own shares in the company:

Director	Direct Shares	Indirect Shares	% to Capital Stock
Lucio L. Co	2,243,102,692	78,466,200	31%
Susan P. Co	1,760,182,230	20,000,000	24%
Leonardo B. Dayao	650,982	0	0.01%
Eduardo Hernandez	120,000	0	0.00%
Levi Labra	0	100	0.00%
Robert Cokeng	0	8,155,000	0.11%
Oscar Reyes	54,264	0	0.00%

**2) Chairman and CEO**

**(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.**

Yes / x / No / /

Chairman of the Board President	Lucio L. Co Leonardo B. Dayao
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**(b) Roles, Accountabilities and Deliverables.** Define and clarify the notes, accountabilities and deliverables of the Chairman and CEO.

	Chairman	President
Role	<ul style="list-style-type: none"> <li>&gt;Plans growth of the Company</li> <li>&gt;Ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chair may deem necessary;</li> <li>&gt;Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the Management and the directors;</li> <li>&gt;Maintain the qualitative and timely lines of communication and information between the Board and Management.</li> </ul>	<ul style="list-style-type: none"> <li>&gt;The person in-charge of the daily operation of the business.</li> <li>&gt;Heads the management team</li> <li>&gt;Seeks approval of the board on corporate matters that affect the operation of the company</li> <li>&gt;Budgets and goals of the company are met</li> </ul>
Accountabilities	Over-all operation of the Company, execution of the short and long term plan and maintain financial soundness of the Company	<ul style="list-style-type: none"> <li>&gt;Budget or target of the company is attained</li> <li>&gt;Financial soundness of the Company</li> </ul>
Deliverables	>Execution of yearly audited financial	>Business plan at the beginning

statements and quarterly financial reports and the annual report.  
> Execution of documents necessary for board meetings, minutes of the board meetings, and other documents necessary for the normal operation of the Company.

of the year  
> Audited Financial Statements  
> Financial reviews

**(c) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?**

The Board is mandating the management to continuously hire professionals and encourage them to constantly undergo training and seminars.

**3) Other Executive, Non-Executive and Independent Directors.** Does the company have a policy of ensuring diversity of experience and background of directors in the board?

Yes, the Company ensures diversity of experience and background of directors in the board.

**Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.**

The Manual on Corporate Governance requires that a Director must have practical understanding of the business of the Company. However, it is always the consideration of the Company to ensure that at least one non-executive director has an experience in the sector or industry the company belongs to. In fact, Mr. Levi Labra, non-executive director, has been in the retail industry for the longest time, being with the Procter & Gamble for the past 35 years.

**Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:**

The Company will establish clear policy on the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors.

**Provide the company's definition of "independence" and describe the company's compliance to the definition.**

The Company adopts the definition of "independence" consistent with the SEC regulations as *"one person, who apart from his fees and shareholdings, is independent of management and free from any business or other relationship which would, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director"*.

The Company complies with the said definition as can be proven by the fact that its current independent directors, Mr. Oscar S. Reyes and Mr. Robert Y. Cokeng, are indeed independent from the management and free from any business or other relationship which would, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out their responsibilities as independent directors.

**Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.**

The Company complies with Securities and Regulation Code that limits to five continuous service of independent directors and two cooling off period before bringing back an independent director.

#### 4) Changes in the Board of Directors

(Executive, Non-Executive and Independent Directors)

- (a) Resignation/Death/Removal - None
- (b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension - None

Stated below are the procedures and the processes for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors.

A. Selection Appointment	Executive Director
B. Re-appointment	Non Executive Director
C. Reinstatement	Independent Directors
Procedure/Process Adopted	Executive Directors are selected by the Nomination Committee. The Nomination Committee usually receives nominations of candidates for directorship and screened them against the qualifications and disqualifications as stated in the Company's Revised Manual on Corporate Governance
Criteria	In addition to the qualifications for membership in the Board provided by the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications, which include, among others, the following: <ul style="list-style-type: none"> <li>&gt;College education or equivalent academic degree;</li> <li>&gt;Practical understanding of the business of the Corporation;</li> <li>&gt;Membership in good standing in relevant industry, business or professional organizations;</li> <li>&gt;Previous experience;</li> </ul>
D. Permanent Disqualification	Executive Director Non Executive Director Independent Directors
Procedure/Process Adopted	The Board acting as a collegial body shall act on any ground for disqualification that may come to its knowledge. The following shall be grounds for the permanent disqualification of a director: <ul style="list-style-type: none"> <li>&gt;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, quasi-bank, trust company, investment house or as an affiliated person of any of them;</li> <li>&gt;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)</li> </ul>



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 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;

>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;

>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 BSP, or any of its rule, regulation or order;

>Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;

>Any person judicially declared as insolvent;

>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 sub-paragraphs 4.5.1.1 to 4.5.1.5 above;

>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.

**Criteria**

E. Temporary

Disqualifications

F. Suspensions

Executive Director

Non Executive Director

Independent Directors

Procedure/Process Adopted

Criteria

The Board acting as a collegial body shall act on any ground for temporary disqualification/suspensions that may come to its knowledge. The Board may provide for the temporary disqualification of a director for any of the following reasons:

>Refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing Rules Regulations. The

disqualification shall be in effect as long as the refusal persists.

- >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.
- >Dismissal or termination for cause as director, and that 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.
- >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.
- >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.

E. Removal

Executive Director	
Non Executive Director	
Independent Directors	
Procedure/Process Adopted	Removal process will be conducted by the Board of Directors.
Criteria	If a director fails to pass the qualification and/or subject to disqualifications as stated in table above, he may be removed from office.

**5.) Result of 2016 Annual Stockholders Meeting**

On June 24, 2016, the stockholders of Cosco Capital, Inc. representing a total of 6,622,069,397 or 90% of the outstanding and issued capital stock of the Company had approved the following items in the Annual Meeting held at the Acacia Hotel, Alabang, Muntinlupa City:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Approval of the Minutes of the 2015 Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting
4. Annual Report of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2015
5. Election of the following directors for the year 2016

Lucio L. Co, as regular director  
 Susan P. Co, as regular director  
 Leonardo B. Dayao, as regular director  
 Levi B. Labra, as regular director  
 Atty. Eduardo F. Hernandez, as regular director  
 Oscar S. Reyes, as independent director  
 Robert Y. Cokeng, as independent director

6. Re-appointment of R.G. Manabat & Company (KPMG) as External Auditor for the year 2016
7. Amendment of Article 6 of the Company's Articles of Incorporation

“SIXTH. That the number of directors of the said Corporation shall be NINE (9).”

8. Amendment of Section 10 Article IV of the By-Laws

“Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board.”

9. Amendment of Section 3 Article III of the By-Laws

“Section 3. Notice of Meeting – Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least thirty (30) days prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purposes for which the meeting is called. No publication of notice of meeting in public newspapers shall be required.”

The following candidates of 2016 Board of Directors were duly elected during the said meeting: Lucio L. Co, Susan P. Co, Leonardo B. Dayao, Eduardo F. Hernandez, Levi B. Labra as regular directors and Robert Y. Cokeng and Oscar S. Reyes as independent directors.

**6) Orientation and Education Program**

- (a) Disclose details of the company’s orientation program for new directors, if any.
- (b) State any in-house training and external courses attended by Directors and Senior Management for the past three (3) years:
- (c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Every year the company is conducting Corporate Governance seminar for all members of the Board conducted by accredited seminar provider by the Securities and Exchange Commission.

December 14, 2011  
Corporate Governance Seminar  
Dusit Hotel, Makati City  
Philippine Securities Consultancy Corporation

February 5 to 6, 2015  
Bankers Institute of the Philippines, Inc.

June 22, 2015  
Acacia Hotel, Alabang, Muntinlupa City  
Center for Training & Development

March 4, 2016  
Acacia Hotel, Alabang, Muntinlupa City  
Center for Training & Development

February 28, 2017  
 Acacia Hotel, Alabang, Muntinlupa City  
 SGV

**B. CODE OF BUSINESS CONDUCT & ETHICS**

1) Stated below are the company's policies on the business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	Transactions causing conflict of interests are prohibited.	Transactions with members of the senior management causing conflict of interest are prohibited.	Transactions with employees causing conflict of interest are prohibited.
(b) Conduct of Business and Fair Dealings	All dealings with directors are at arms-length basis.	Business and Dealings between the Company and the Senior Management are not encouraged.	Business and Dealings between the Company and the employees are not encouraged.
(c) Receipt of gifts from third parties	Prohibited.	Prohibited.	Prohibited.
(d) Compliance with Laws & Regulations	Full compliance is required.	Full compliance is required.	Full compliance is required.
(e) Respect for Trade Secrets/Use of Non-public information	Required.	Required.	Required.
(f) Use of Company Funds, Assets and Information	Strictly in accordance with the rules of the company.	Strictly in accordance with the rules of the company.	Strictly in accordance with the rules of the company.
(g) Employment & Labor Laws & Policies	Full compliance.	Full compliance.	Full compliance.
(h) Disciplinary action	Strictly observed.	Strictly observed.	Strictly observed.
(i) Whistle Blower	Strictly observed.	Strictly observed.	Strictly observed.
(j) Conflict Resolution	The Company is yet to adopt policy regarding conflict resolution.	The Company is yet to adopt policy regarding conflict resolution.	The Company is yet to adopt policy regarding conflict resolution.

**2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?**

Yes.

**3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.**

Any person may file any complaint of misconduct against any employee or any violation with the code of ethics or conduct to the Office of the Chairman or the Human Resource Department (HR). The HR will serve notice to the employee concerned and give him chance

to explain himself why he should not be given a disciplinary action. Thereafter, the HR in coordination with the Legal Department and Office the Chairman, will resolve whether or not to cite the employee for disciplinary action.

#### 4) Related Party Transactions

##### (a) Policies and Procedures

The company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board are as follows:

Related Party Transactions	Policies and Procedures
(1) Parent Company	
(2) Joint Venture	
(3) Subsidiaries	
(4) Entities Under Common Control	<p>All related party transactions are at arms-length basis duly approved by the Audit Committee, and passed during the meeting of the Board of Directors that is duly attended by independent directors.</p>
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings/parents	
(7) Directors including spouse/children/siblings/parents	
(8) Interlocking director relationship of Board of Directors	

##### (b) Conflict of Interest

**(i) Directors/Officers and 5% or more Shareholders.** Actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

None. We shall report in case any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

**(ii) Mechanism.** Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors and significant shareholders.

Company Group	Directors/Officers/Significant Shareholders Full disclosure of transaction with the Company is required.
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#### 5) Family, Commercial and Contractual Relations

- (a) **Relationship of a family, commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:**

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
Lucio L. Co	Affinity	Husband of Susan P. Co
Susan P. Co	Affinity	Wife of Lucio L. Co

- (b) **Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:**

None.

- (c) **Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:**

None

#### 6) **Alternative Dispute Resolution**

**Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.**

The Company has yet to establish an Alternative Dispute Resolution System.

#### **C. BOARD MEETINGS & ATTENDANCE**

- 1) **Are Board of Directors' meetings scheduled before or at the beginning of the year?**

Yes, regular board meetings are scheduled at the beginning of the calendar year.

- 2) **Attendance of Directors for the year 2016:**

Position	Name	Date of Election	No. of Meetings held during the year	No. of meetings Attended	%
Chairman	Lucio L. Co	June 24, 2016	6	6	100.00%
Member	Susan P. Co	June 24, 2016	6	5	83.33%
Member	Leonardo B. Dayao	June 24, 2016	6	6	100.00%
Member	Levi b. Labra	June 24, 2016	6	5	83.33%
Member	Eduardo F. Hernandez	June 24, 2016	6	6	100.00%
Independent Director	Oscar S. Reyes	June 24, 2016	6	6	100.00%
Independent Director	Robert Y. Cokeng	June 24, 2016	6	6	100.00%

- 3) **Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?**

None.

- 4) **Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.**

Yes, On April 1, 2016, the Board amended Section 10 Article IV of the By-Laws requiring minimum quorum requirement at two-thirds.

“Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board.

The said amendment was approved by the SEC on October 19, 2016.

#### **5) Access to Information**

Every stockholder has access to corporate records.

##### **(a) How many days in advance are board papers for board of directors meetings provided to the board?**

At least 5 days in advance.

##### **(b) Do board members have independent access to Management and the Corporate Secretary?**

Yes.

##### **(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?**

**Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.**

The Company Secretary, Atty. Jose S. Santos, is lawyer and is duly knowledgeable of basic accounting and company secretarial practices.

##### **(d) Committee Procedures**

Directors can avail or get information necessary to be able to prepare them in advance for the meetings of different committees:

Committee	Details of the procedure
Executive	
Audit	Directors are given meeting materials at least 5 days before the meeting.
Nomination	
Remuneration	

#### **6) External Advice**

Directors can receive external advice in order to equip themselves with appropriate information or advise on a specific matters that ask for their approval.

## 7) Change/s in existing policies

No material changes in the policy that have the effect on the business of the company.

## **D. REMUNERATION MATTERS**

### **1) Remuneration Process**

The total salary of the President and the four (4) most highly compensated management officers are as follows:

Leonardo B. Dayao  
Andres Santos, Legal Counsel  
Wyomia Guevarra, HR Manager  
Kenrick Lester Nocom, Senior Manager  
Maricel Mariano, Accounting Manager  
Total Compensation for the year 2016: Php5,012,772.85

The salaries of the President and senior management officers are fixed.

### **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 salaries of the directors are fixed.

**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.**

No.

### **3) Aggregate Remuneration**

The table below present the aggregate remuneration of Directors accrued during the year 2016.

Remuneration Item	Executive Directors	Non Executive Directors	Independent Directors
Fixed remuneration	Php4,800,000.00	0	0
Variable remuneration	0	0	0
Per diem allowance	Php50,000.00/meeting	Php50,000.00/meeting	Php50,000.00/meeting
Bonuses	0	0	0
Stock options & other financial instruments	0	0	0
Others	0	0	0
Other benefits	0	0	0
Advances	0	0	0
Credit granted	0	0	0
Pension plans/contributions	0	0	0
Life insurance premiums	0	0	0
Hospitalization Plan	0	0	0
Car Plan	0	0	0
Others	0	0	0



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

(a) Board of Directors - None

(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:

None

#### 5) Remuneration of Management

Identification of 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:

Leonardo B. Dayao  
Andres Santos, Legal Counsel  
Wyomia Guevarra, HR Manager  
Kenrick Lester Nocom, Senior Manager  
Maricel Mariano, Accounting Manager  
Total Compensation for the year 2016: Php5,012,772.85

#### E. BOARD COMMITTEES

##### 1) Number of Members, Functions and Responsibilities

Details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

###### *Executive Committee*

Number of Executive Director	3
Number of Non Executive Director	2
Number of Independent Director	0
Committee Charter	None
Functions	It may act on such specific matters which are within the competence of the Board to approve, pass or act upon.
Key Responsibilities	To regularly convene and approve business matters within its authority.

###### *Audit Committee*

Number of Executive Director	2
Number of Non Executive Director	0
Number of Independent Director	1
Committee Charter	The Board already approved the Audit Committee Charter of Cosco Capital, Inc.
Functions	Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Corporation; Perform oversight functions over the Corporation's internal and external auditors; Review the annual internal audit plan to ensure its conformity with the objectives of the Corporation; Organize an internal audit department, and consider the

Key Responsibilities	<p>appointment of an independent internal auditor and the terms and conditions of its engagement and removal; Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security; Review and reports submitted by the internal and external auditors; Recommend appointment, re-appointment or termination of external auditor; Review and quarterly, half-year and annual financial statements before their submission to the Board; Coordinate, monitor and facilitate compliance with laws, rules and regulations and; 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.</p> <p>To 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 and perform oversight functions over the Corporation's internal and external auditors.</p>
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*Nomination Committee*

Number of Executive Director	1
Number of Non Executive Director	1
Number of Independent Director	1
Committee Charter	None
Functions	Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.
Key Responsibilities	To receive nomination of directors, qualify or disqualify nominated directors before bringing to the Board.

*Remuneration or Compensation Committee*

Number of Executive Director	2
Number of Non Executive Director	0
Number of Independent Director	1
Committee Charter	None
Functions	To establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates.
Key Responsibilities	To assess the compensation package of the officers.

*Corporate Governance Committee*

Number of Executive Director	0
Number of Non Executive Director	2
Number of Independent Director	1
Committee Charter	None
Functions	To check on Corporate Governance policies and compliance of the directors and management of the Company.

Key Responsibilities

To check on Corporate Governance policies and compliance of the directors and management of the Company.

(a) **Audit Committee.** Disclose the profile or qualifications of the Audit Committee members.

All Audit Committee members have accounting and finance backgrounds

**Chairman of the Audit Committee: Robert Y. Cokeng, 64, Filipino, Independent Director**

Mr. Cokeng serves as a director and/or officer in the following companies: Chairman, President and CEO – F&J Prince Holdings Corporation (PSE-Listed Company); President and CEO–Magellan Capital Holdings, Corp.; President and CEO–Magellan Utilities Dev't. Corp.; Chairman, President and CEO–Consolidated Tobacco Ind. of the Phils.; Chairman and President–Center Industrial and Investment, Inc.; Chairman–Pointwest Technologies Corp. and Pointwest Innovations Corp.; Chairman-Exec. Committee – Business Process Outsourcing International; Chairman–IPADS Developers, Inc. He was also the Senior Investment Officer and Philippine Country Officer of International Finance Corporation (World Bank Group) from 1976 to 1986. He worked on investments in East Asia from Washington D.C. Headquarters and from Regional Mission for East Asia located in Manila.

He graduated Magna Cum Laude in Ateneo de Manila University with degree of Bachelor of Arts Economics Honors Program. He also earned his Master in Business Administration in Harvard University with High Distinction and elected a Baker Scholar.

**Levi Labra, 58, Filipino**

Mr. Labra was the former Director for Customer Business Development for Asia Pacific Region of Procter and Gamble Distributions, Inc. He was with P&G for 35 years and involved himself in sales management, distributor operations, logistics, forecasting, among others. He is a graduate of University of San Carlos with a Bachelor of Science in Business Administration.

**Leonardo B. Dayao, 73, Filipino**

Mr. Dayao is currently Chairman of PSMT Philippines, Inc. and Chairman and President of Fertuna Holdings Corp. and Vice-Chairman of Liquegas Philippines Corporation. He is a President and CEO of Caturan Hydropower Corporation and San Jose City I Power Corp. He is a President of Alcorn Petroleum and Minerals Corporation, Cosco Capital, Inc. (publicly-listed company), CHMI Hotels & Residences, Inc., Puregold Duty Free (Subic), Inc., Puregold Finance, Inc. and Union Energy Corporation. He is a Vice-President of 118 Holdings, Inc., Alerce Holdings Corp., Bellagio Holdings, Inc., Ellimac Prime Holdings, Inc., KMC Realty Corporation, Puregold Duty Free, Inc., Puregold Properties, Inc., Union Equities, Inc. and VFC Land Resources, Inc. He is a Director of Philippine Bank of Communications (publicly-listed company), Entenso Equities Incorporated, Nation Realty, Inc. and Puregold Realty Leasing & Management, Inc.

He received a Bachelor of Science Degree in Commerce from the Far Eastern University. He is a Certified Public Accountant and has completed Basic Management Program at Asian Institute of Management and earned units in MBA from University of the Philippines-Cebu. **Describe the Audit Committee's responsibility relative to the external auditor.**

Based on the Audit Committee Charter of the Company, the Audit Committee performs oversight function over the work of the external auditor. Specifically, the Audit Committee, under its Charter, is obliged to:

1. Recommend the appointment of the Independent Auditors and their remuneration to the Board.
2. Review and pre-approval of Independent Auditor's plan to understand the basis for their risk assessment and financial statement materiality, including the scope and frequency of the audit.
3. Monitoring of the coordination of efforts between the external and internal auditors.
4. Review of the reports of the Independent Auditors and the regulatory agencies, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner, including addressing control and compliance issues.
5. On an annual basis, review the audit and non-audit fees and services provided by the independent accountant. Approve the Company's proxy disclosure with the respect to such fees and approve for the coming year fees to be paid to the independent accountant including non-audit services.
6. Conduct private review sessions with the Independent Auditors at least annually and as otherwise deemed appropriate by the Committee.
7. Assess the effectiveness of the conduct and performance of independent audit. Review the annual audit report which subsequently produced.

(b) **Others (Specify).** Provide the same information on all other committees constituted by the Board of Directors:

No other committee is constituted by the Board of Directors.

## 2) Changes in Committee Members.

There is no changes in Committee Members.

## 3) Work Done and Issues Addressed

Work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Audit	Approval of Audited Financial Statements	No major issue
Nomination		
Remuneration	None	
Others (specify)		

## 4) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

On April 1, 2016 Board meeting of the Company, the Board approved to amend the following provisions of the Company's Articles and by Laws. The amendments were made to improve corporate governance practices of the Company.

On October 19, 2016, the SEC approved the aforesaid amendments: Amendment of Article 6 of the Articles of Incorporation

“SIXTH. That the number of directors of the said Corporation shall be NINE (9).

1. Amendment of Section 10 Article IV of the By-Laws

“Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board.”

2. Amendment of Section 3 Article III of the By-Laws

“Section 3. Notice of Meeting – Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least thirty (30) days prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purposes for which the meeting is called. No publication of notice of meeting in public newspapers shall be required.

**INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**  
**INTERNAL CONTROL POLICY FRAMEWORK**

The Board of Directors (Board) is responsible in formulating clearly defined internal control and risk management systems and policies including guidance in the determination of the appropriate nature and extent of business risks that the Company is willing to take to ensure achievement of strategic objectives based on annual and long term business plans.

The Board is assisted by a Management Committee (ManCom) which is charged with accountability and responsibility to design and ensure risk management policies and procedures are strictly implemented by all business units within the group in the conduct of its day to day business operations and activities. Major policy decisions and actions are elevated to Board of Directors for approval.

The Company's internal controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of company's resources, reliability of operating and financial records and information, and compliance with policies and regulations. Internal Controls are designed and continuously enhanced to have reasonable but not absolute assurance against material misstatement, loss or fraud.

**INTERNAL CONTROL SET-UP AND CONTINUOUS SYSTEM ENHANCEMENTS:**

Internal control and risk management systems comprise of the following areas:

**A. CONTROL SET-UP**

In 2014, the Board created a Corporate Governance Committee. It is tasked to ensure compliance by the Company with the written Manual of Corporate Governance; build awareness and control responsibility to further improve and be at par with the best practices.

Key Officers are identified to establish the proper environment for internal control compliance as policies and procedures approver; ensuring adequate controls are in place based on pre-identified risks; where preventive measures are supplemented in the processes. Departmental management is given responsibility as processes reviewers; with objective of advance detection of improprieties. Each store has an identified Key Personnel for effective Procedure Implementation from the Store Management and Store Auditor; both of which are accustomed with the processes. Based on pre-defined annual audit plans and timelines, auditors are tasked to perform periodic compliance review, determine process implementation strengths and areas for improvements. Each process-owner ensures adherence on strict implementation and controls based on pre-defined and agreed Key Results Area as part of their accountability.

The management is continuously refining the internal control frameworks to ensure fair business activity in compliance with the related laws and regulations. The directors and management are well-informed of the review and enhancements of the internal control system. Based on the covered areas, stores, scope of transactions and processes reviewed by the company's Internal Audit Division, the internal control systems are fairly effective and adequate.

## **B. RISK ASSESSMENT**

There are constant improvements on risk management processes where enhanced reporting is implemented as one of the tools to easily detect quality of risk information. Risk management features are embedded on the enhanced policies and procedures headed by each functional division and department heads.

On a monthly basis, the Executive Committee aims to review and enhance certain policies, systems and procedures related to operations and financial recording and reporting to continuously assess effectiveness of the internal control and risk management programs.

The Board Audit Committee reviews high risk areas once a year based on internal audit reports; the company aims to increase frequency of reviews on a quarterly basis to determine effectiveness in relation to identified risk on financial reporting process.

Regular internal management coordination meetings are held to fully discuss immediate action plans and solutions on identified risks and determine further enhancements on overall risk assessment process through the build-up teamwork of the group.

## **C. CONTROL ACTIVITIES**

A regular and continuing internal audit and review process are implemented by Internal Audit Division covering the group's operating and support organizational structures, systems and processes to ensure compliance with established internal control systems and standards. Identify possible non-compliance on internal controls, financial standard policies and procedures and corrective measures necessary.

Defined internal control standards, are more focused on accountability segregation, established gray areas clarity on functions and responsibilities and early detection of preventive measures and controls.

## **D. INFORMATION AND COMMUNICATION**

Written business policies, procedures and systems manuals are maintained in the Company's online procedures and manual portal and accessible to the authorized users for their reference. Duly approved additions or process enhancements are added to the portal by authorized Business Process personnel on a regular basis.

These new processes are also communicated through email to the responsible department heads and key personnel in-charge of training.

#### **E. MONITORING**

Internal financial reporting is improved on an ongoing basis; policies and procedures are aligned within the companies. Monthly financial reports are submitted and presented to the Executive Committee as basis for the conduct of monthly financial and operating reviews and analysis, identify possible non-compliance on internal controls, financial standard policies and procedures and corrective measures necessary.

The Board Audit Committee follows up on the corrective actions to ensure internal control weaknesses identified are corrected. Internal Audit performs follow up audit engagement on areas with identified high risks areas to ensure internal controls are strengthened based on the recommended solutions and actions.

#### **SECTION B.**

- **Internal Audit Division (IAD) - Role, Scope and Function**

The Company's Internal Audit Division's core objective is to establish reasonable assurance that the Company's governance, risk management, internal and management controls over efficiencies and effectiveness of operations, reliability of financial management are adequate to ensure, among others:

- Risks are appropriately identified and managed
- Significant financial, managerial and operational information is accurate, reliable and timely
- Employees' performance and actions are in compliance with set policies
- Resources are acquired economically, efficiently utilized and adequately protected
- Quality and continuous enhancements are fostered in the Company's procedures, guidelines and control processes.
- Programs, plans, objectives and timelines are defined and communicated to ensure achievement of the set goals

The IAD employs both Risk-Based Audit methodology and transactional audit. The scope of internal audit functions are divided into three areas, as follows:

- Financial Audit
- Aim to assess effectiveness of an entity's suite of controls over record keeping and reporting are adequate and effective; concentrating on such areas as proper authorization, the safeguarding of assets, and the segregation of duties.
- Major scope is the sales audit in the stores, for the timely checking and assurance of completeness, timeliness and adequate loading to financial modules.
- Store Operations Audit
- To evaluate compliance with policies, procedures, methods and standards.
- To determine control weaknesses and provide guidelines for procedure documentation or enhancement



- To evaluate if controls are in place that eliminates opportunity for damage, loss, fraud or irregularities.
- To appraise units or functions effectiveness and efficiency.
- Computer Information System Audit
- To evaluate internal controls in the computerized systems and identify control weaknesses, risks and deviations.
- To identify the nature and extent of risks to financial reporting posed by the use of information technology
- To review new systems/software development and ensure coordinated and proper implementation
- To identify risks of fraud, errors, irregularities, accidental and deliberate damage.

The Audit Manager reports to the Audit Committee, the Executive Committee and to the Chairman and the President. The internal auditors have direct and unfettered access to the Board of Directors, the Audit Committee, store management and access to all records, properties, and personnel.

- **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 committee?**

The Audit Committee approval is required for the appointment and/or removal of the Internal Auditor or the accounting/auditing firm or corporation to which the internal audit function is outsourced.

- **Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct access to the board of directors and the audit committee?**

The Audit Manager reports to the Audit Committee, the Executive Committee and to the Chairman and the President. The internal auditors have direct and unfettered access to the Board of Directors, the Audit Committee, store management and access to all records, properties, and personnel.

- Resignation, Re-assignment and Reasons.
- Progress against Plans, Issues, Findings and Examination Trends  
Risk-Based audit is embedded on the audit activities based on Annual Audit Plan.
- Store Auditors identified key high risk areas where regular audit is performed; subject for review on a monthly basis.
- Inventory Management
- Quality Assurance
- Policies and procedures
- Tenants accounts and contracts
- Functions and Plantilla
  - Financial Process
  - Major financial accounts are audited and established controls and systems and processes are enhanced based on risk identified.
  - Information Systems
  - system access and security
  - Pre-implementation and post implementation reviews of in-house systems
  - Data integrity across systems

**Progress against Plans:**



Volume of transactions, manpower staffing, level of new stores opening and launching and on-going enhancements of the Company's operating IT systems as well as certain in-house programs, among others, were duly considered in the formulation of the annual internal audit plans and programs during the year.

Nevertheless, the audit activities are considered adequate to determine the effectiveness of the system and compliance in the procedures, especially when we focused on the process stated above. The audited activities have further provided new and enhanced insights on improvements of procedures and controls, and development of new systems.

#### **Issues and Findings:**

The fast expansions and launching of new stores also mean increase in manpower and extensive retraining of procedures. Certain issues are raised on how immediate the organization (and stores) must adapt to these changes and the challenge of aligning the process, people and the functions (procedures).

Audit findings include existence of various non-value processes and non-compliance on certain procedures that rendered lag in the process. These are gradually being resolved by each unit or department's efforts to restructure and improve. IAD is also working with Business Process Department for the continuous process assessments and improvements.

#### **Examination Trends**

The current challenges to adapt to changes, to keep up with the ongoing expansion, while doing implementation of new systems, are very much expected by everyone in the management. The issues and findings are pervasive as expected, but the Company's management is committed to keep abreast and be on top of these changes by doing incessant evaluation and finding solutions to the demands of these challenges.

#### **• Audit Control Policies and Procedures**

#### **Internal Audit Controls, policies and procedures**

Audit assessments have resulted to various major and minor updates and enhancements in controls and policies, and streamlining of store procedures. The following areas have significant new and enhanced policies and procedures implementation, among others:

1. General
    - KPI reporting and evaluation process
  2. Finance related processes
    - Payment processes and recording
    - Collection processes and recording
    - Assets management – ongoing
  3. Business Operation related processes
    - Mother Purchase Order
    - Cycle and Annual Inventory Count
    - CRM
- **Mechanism and Safeguards**

The Audit Division has been an independent functional business unit. The internal auditors, although substantially based at the stores, are functionally reporting to the Audit Officers and Managers at the head office.

The scope of the audit works and activities are directed and supervised by the division based on annual audit planning. Any requests for audit investigation, analysis or store-related auditing are approved first with the Audit Officers. Performance of the internal auditors is rated solely by the Audit Managers and not by Store Managers.

- **State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance.**

The Chairman, based on the recommendations of the Company's Compliance Officer, attests that the Company, under his chairmanship, always strives to be in full compliance with the SEC Code of Corporate Governance, and that all directors, officers and other key employees of the Company have been given proper guidance on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure compliance.

## **H. ROLE OF STAKEHOLDERS**

### **1) The company's policy and activities relative to the following:**

	<b>Policy</b>	
<b>Customer's welfare</b>	Total satisfaction for our customers from the kind of service to the prices of our merchandise.	It can be shown in the daily operation in all of the Company's stores.
<b>Supplier/contractor selection practice</b>	Supplier must be accredited, we make sure that their goods are safe, genuine and registered with government bodies regulating them.	Consistently practiced by the vendors in the merchandising department.
<b>Environmentally friendly value-chain</b>	All our stores have sufficient environment compliance certificate and continuously observing environmental laws.	From the construction of the stores up to its opening, the Company ensures to have all the environmental permits required.
<b>Community interaction</b>	Supportive of educational foundations and small enterprise.	The Company is in coordination with LCKK Foundations granting scholarships to well deserving students and the Aling Puring Program is reaching out to sari sari store owners to enhance their businesses.
<b>Anti-corruption programmes and procedures?</b>	Strictly no bribery to any agency and no bribery within the Company.	Gift or any form of consideration from any party with dealings in the Company are prohibited and this policy is widely known especially among suppliers.
<b>Safeguarding creditors' gifts</b>	The policy of not accepting gifts or any form of consideration from any party with dealings in the Company are widely known to all the employees.	Any complaint for such is strictly monitored by the Company.

### **2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?**

This is jointly administered by the Office of the Vice-President for Administration and Human Resource Department.

**3) Performance-enhancing mechanisms for employee participation.**

**(a) What are the company’s policy for its employee’s safety, health and welfare?**

The Company shall maintain a safe, productive and conducive workplace and comply with all applicable health, safety and environmental laws.

**Employee Health & Safety** – The safety policies have been prepared to help employees prevent accidents and injuries in and outside the company premises.

**Employee Welfare** - In this regard, company employees are covered by rules based on labor laws against the use of prohibited drugs, working under the influence of liquor, sexual harassment.

**(b) Show data relating to health, safety and welfare of its employees.**

Existing Benefit/Policy	Description
Group Personal Accident Insurance	<p>All directly hired employees (regardless of employment status), upon hire, actively/Inactively at work on the effective date of the policy and with ages at least 18 but not over 65 years.</p> <ul style="list-style-type: none"> <li>• Scope of Coverage               <ul style="list-style-type: none"> <li>✓ 24 Hours a Day</li> <li>✓ 7 Days a Week</li> <li>✓ 365 Days in a Year</li> <li>✓ At Home, At Work or At Play</li> <li>✓ Anywhere in the World</li> </ul> </li> </ul>
Health Insurance	<ul style="list-style-type: none"> <li>• Regular employees</li> </ul> <p>Annual Physical Examination            In-patient /Hospitalization benefit            Out-patient            Dental benefit</p>

**(c) State the company’s training and development programmes for its employees. Show the data.**

The Company provides learning and development opportunities for professional growth.

In 2016, the company’s senior management attended an exclusive in-house seminar conducted by the Center for Training and Development, Inc. covering such topics as Latest Accounting and Tax Updates to enhance the knowledge of our Corporate Accounting/ Finance Managers and update them on current developments and in both taxation and international accounting standards;  
 Leadership Excellence Training conducted by Cornerstone Training;

Continuing Professional Development (CPD) conducted by Partners and Management of RSBA and BDP.

In 2015, the company's directors and senior management attended seminars on corporate governance and economic briefing.

**(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.**

All employees are engaged and compensated based on performance, qualification, and merit. Opportunities for career advancement shall be provided based on clear performance and qualifications criteria.

**(e) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.**

Any person may file any complaint of misconduct against any employee or any violation of company's Code of Discipline to the Office of the Chairman or the Human Resource Department (HRD). The HRD will serve notice to the employee involved and give him the chance to explain himself why he should not be given a disciplinary action. Thereafter, the HRD in coordination with the Legal Department and Office of the Chairman, will resolve whether or not to cite the employee for disciplinary action.

In addition to the initiatives on the non-terminable cases, the company started administering counseling to employees charged of tardiness. The HRD is planning to implement the use of counseling session to all offenses to ensure efficient corrective measure.

The Management respects the wish of the complainant if he prefers that his identity be kept Confidential. In this case, the Management will conduct its own investigation and gather evidence on its own.

**I. DISCLOSURE AND TRANSPARENCY**

**1) Ownership Structure**

**(a) Holding 5% shareholding or more**

Shareholder	Number of Shares	Percent	Beneficial Owner
Lucio L. Co	2,321,568,892	31%	None
Susan P. Co	1,780,182,230	24%	None

**(b) Member of Senior Management**

Member of Senior Management	Direct Shares	Indirect Shares	Percentage to Outstanding Shares
Lucio L. Co	2,243,102,692	78,466,200	31%
Susan P. Co	1,760,182,230	20,000,000	24%
Leonardo B. Dayao	650,982		0.01%

**2) Does the Annual Report disclose the following:**

Key risks	Yes
Corporate objectives	Yes
Financial performance indicators	Yes
Non-financial performance indicators	Yes
Dividend policy	Yes

Details of whistle-blowing policy	Yes
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorship of listed companies) of directors/commissioners	Yes
Training and/or continuing education program attended by each director/commissioner	Yes
Number of board of directors/commissioners meetings held during the year	Yes
Attendance details of each director/commissioner in respect of meetings held	Yes
Details of remuneration of the CEO and each member of the board of directors/commissioners	Yes

### 3) External Auditor's fee

The External Auditor for the year 2015 is R.G. Manabat & Company, (KPMG).

2015 Audit Fee	2015 Non-Audit Fee
Php3,220,500	None

### 4) Medium of Communication

The following are the modes of communication that the company is using for disseminating information.

For Corporate events for stockholders - the Company website and PSE website.  
The Company is also using television, print, and radio as form of communicating its projects, promos, and events.

### 5) Date of release of audited financial report

On or before April 15 of every year.

### 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	Yes
Shareholding structure	Yes
Group corporate structure	Yes
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (company's by-laws, memorandum and articles of association)	Yes

### Disclosure of RPT

**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?**

The Company's related party transactions, its nature and value are itemized in the financial statements.

When RPTs are involved, the Company ensures that transactions are objective and are on an arm's length basis in a manner similar to transactions with non-related parties. A RPTs are reviewed as to its business purpose, its terms and its benefits, and it requires approval process to safeguard the interest of the Company and shareholders.

**J. RIGHTS OF STOCKHOLDERS**

**1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings**

**(a) Quorum.** Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-Laws.

Quorum Required	Majority except those specified under the Corporate Code that requires 2/3 approval
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**(b) System Used to Approve Corporate Acts**

Explain the system used to approve corporate acts.

System Used	During board meetings where directors personally attend and approve corporate acts
Description	Personal meetings

**(c) Stockholders' Rights**

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders rights are those laid down in the Corporation Code.

**(d) Stockholders' Participation**

**1. State, if any, the measures adopted to promote stockholder participation in the Annual/Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.**

**Before the ASM:** The Company issues an information statement to the stockholders where the all the matters for approval to the stockholders are fully discussed. In case they cannot attend in person, stockholders are given proxy forms where they can manifest their approval or disapproval to any matter on the agenda.

**During the ASM:**

Measures Adopted: Question and Answer during the ASM

Communication Procedure: The Chairman always opens the floor to all stockholders who may want to raise question in any agenda item of the ASM.

**2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:**

- a. Amendments to the company's constitution
- b. Authorization of additional shares

- c. Transfer of all or substantially assets, which in effect results in the sale of the company

The Company is in full compliance with the provisions of the Corporation Code specially on the rights of the stockholders to appraisal rights, and any amendment of the Company's articles of incorporation where stockholders representing at least 2/3 of the capital stock must vote in the affirmative.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AM where items to be resolved by shareholders are taken up?

Yes.

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

The Chairman opened the floor for questions and answers portion but no significant question was raised during Annual/Special Stockholders' Meeting in 2016.

#### 5. Result of Annual/Special Stockholders' Meeting Resolutions

On June 24, 2016, the stockholders of the Company representing a total of 6,622,069,397 or 90% of the outstanding and issued capital stock of Cosco have approved the following items in the Annual Meeting held at the Acacia Hotel, Alabang, Muntinlupa City:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Approval of the Minutes of the 2015 Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting
4. Annual Report of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2015
5. Election of the following directors for the year 2016: Lucio L. Co, as regular director, Susan P. Co, as regular director, Leonardo B. Dayao, as regular director, Levi B. Labra, as regular director, Atty. Eduardo F. Hernandez, as regular director, Oscar S. Reyes, as independent director and Robert Y. Cokeng, as independent director
6. Re-appointment of R.G. Manabat & Company (KPMG) as External Auditor for the year 2016
7. Amendment of Article 6 of the Company's Articles of Incorporation

“SIXTH. That the number of directors of the said Corporation shall be NINE (9).”

8. Amendment of Section 10 Article IV of the By-Laws

“Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board.”

9. Amendment of Section 3 Article III of the By-Laws

“Section 3. Notice of Meeting – Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least

thirty (30) days prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purposes for which the meeting is called. No publication of notice of meeting in public newspapers shall be required.”

The following candidates of 2016 Board of Directors were duly elected during the said meeting: Lucio L. Co, Susan P. Co, Leonardo B. Dayao, Eduardo F. Hernandez, Levi B. Labra as regular directors and Robert Y. Cokeng and Oscar S. Reyes as independent directors.

**6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:**

Result is not published in newspapers but posted in Company’s website.

**(e) Modifications.** State, if any, the modifications made in the Annual/Special Stockholders’ Meeting regulations during the most recent year and the reason for such modification:

None

**(f) Stockholders’ Attendance**

**(i) Attendance in the Annual/Stockholders’ Meeting held:**

Type of Meeting	Names of Board members/Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)
Annual	All directors were present and key officers of the Company were present in the Annual Stockholders Meeting. 90% of stockholders attended the ASM, 73% in person and 17% by proxy.	June 24, 2016	By ballot, however, the same was waived considering that substantial votes were already made and casted in favor of the matters approved by the major stockholders and by proxy.

**(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?**

RCBC-Stock transfer agent is the independent party appointed by the Company to and/or validate the votes at the ASM.

**(iii) Do the company’s common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.**

Yes.

**(g) Proxy Voting Policies**

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders’ Meeting.

Execution and acceptance of proxies	Company’s Policies
Notary	Stockholders are fully informed.
Submission of Proxy	Not required, but for corporations, the authority of the representative must be stated in a board resolution under oath by the Corporate Secretary.



Several Proxies	Liberal implementation
Validity of Proxy	Allowed
Proxies executed abroad	Done through the stock transfer agent
Invalidated Proxy	Allowed
Validation of Proxy	Not counted
Violation of Proxy	Done through the stock transfer agent
	Not counted

**(a) Sending of Notices. State the company's policies and procedures on the sending of notices of Annual/Special Stockholders' Meeting.**

On April 1, 2016, the Board of Directors approved the amendment of the By Laws requiring 30 days notice prior to Stockholders' Meeting, annual or special. Upon approval of the stockholders of the amendment on June 24, 2016, the 30 day notice will be implemented starting 2017 ASM.

**(b) Definitive Information Statements and Management Report**

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	All stockholders as of record date
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	23 days before the Stockholders Meeting
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	23 days before the Stockholders Meeting
State whether CD format or hard copies were distributed	CD Format
If yes, indicate whether requesting stockholders were provided hard copies	Yes

**(c) Does the Notice of Annual/Special Stockholders' Meeting include the following:**

Each resolution to be taken up deals with only one item.	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience and directorships in other listed companies) nominated for election/re-election.	Yes
The auditors to be appointed or reappointed.	Yes
An explanation of the dividend policy, if any dividend is to be declared.	Yes
The amount payable for final dividends.	Yes
Documents required for proxy vote.	Yes

**2) Treatment of Minority Stockholders**

**(a) State the company's policies with respect to the treatment of minority stockholders.**

Please see below provisions in the Revised Manual on Corporate Governance:

"The Board shall respect the rights of the stockholders as provided for in the Corporation Code; namely, right to vote on all matters that require their consent or approval; right to inspect corporate books and records; right to information; right to dividends; and appraisal right.

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of

that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation.

**(b) Do minority stockholders have a right to nominate candidates for board of directors? Yes.**

#### **K. INVESTORS RELATIONS PROGRAM**

- 1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.**

The Company adheres to the principle of transparency. It makes sure that the external and internal communication processes reflect such guiding principle.

Company announcements are handled by the offices of the Corporate Secretary and Investor Relations Officer.

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.**

The Company's Investor Relations Officer is Ms. Diana D. Dayrit. Her contact details are: [diana.dayrit@coscocapital.com](mailto:diana.dayrit@coscocapital.com) and telephone number (632) 523-3055.

It is the strategy of the office to constantly update the website of the Company and reflect thereon all projects and disclosures made to the Philippine Stock Exchange.

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?**

As long as in line with the Company's business plan, and made after compliance with all regulatory approvals required by the Securities and Exchange Commission and Philippine Stock Exchange.

**Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.**

In the 2013 acquisition of Lucio Co Group of Companies, Cosco engaged the services of Isla Lipana and Company to evaluate the fairness of the share for share swap transaction between the Company and Lucio Co Group.

**L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES**

The Company has not yet established a formal policy or started with any initiatives on corporate social responsibility. The Company will soon adopt one that is relevant to its current business being a holding company of retail focused businesses.

**M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL**

**Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director and the CEO/President.**

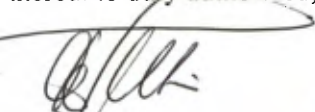
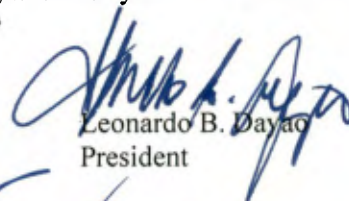


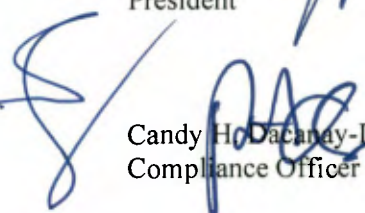
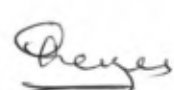
Assessment is yet to be done. We will inform the Commission of such assessment once made.

**N. INTERNAL BREACHES AND SANCTIONS** Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees.

After due notice and hearing, any director, officer or employee who has been found in violation of the corporate governance manual shall have the following penalties: First Offense, warning/reprimand; Second offense, suspension from office and the duration shall be determined by the Board of Directors and; Third offense, the maximum penalty of removal from office.


**SIGNATURES**

Pursuant to the requirement of the Securities and Exchange Commission, this **Annual Corporate Governance Report** is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Manila on March 2, 2017.

 Lucio L. Co Chairman	 Leonardo B. Dayao President	 Robert Cokeng Independent Director
 Jose S. Santos, Jr. Corporate Secretary	 Candy H. Dacanay-Datuon Compliance Officer	 Oscar S. Reyes Independent Director

SUBSCRIBED AND SWORN to before me this MAR 16 2017 day of March 2017 in the City of Manila, Philippines.

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Book no. VI  
Series of 2017.

  
**CAROLINE G. EXCONDE**  
NOTARY PUBLIC FOR THE CITY OF MANILA  
APPOINTMENT NO. 2016-068  
UNTIL DECEMBER 31, 2017  
PTR NO. 5993454 MANILA 01-03-17  
IBP NO. 1062578/2-2-17/PPLM  
MCLE COMPLIANCE NO. V-0014291/02-16-2016  
ROLL NO. 55392/05-02-08  
NO. 900 ROMUALDEZ ST., PACO, MANILA 1007