



MANUAL ON CORPORATE GOVERNANCE

HARBOR STAR SHIPPING SERVICES, INC.

MANUAL ON CORPORATE GOVERNANCE

The Board of Directors and Management of HARBOR STAR SHIPPING SERVICES, INC. (the “Corporation”) hereby commit themselves to the principles and best practices contained in this Manual, for the attainment of the Corporation’s goals and objectives.

1. OBJECTIVE

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

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization.

2. COMPLIANCE SYSTEM

2.1 Compliance Officer

2.1.1 To insure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer. The Compliance Officer shall hold, at the minimum, the position of a Vice-President or its equivalent. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer. He/She shall have direct reporting responsibilities to the Chairman of the Board.

2.1.2 He/She shall perform the following duties:

- a. Monitor compliance by the Corporation with the provisions and requirements of this Manual and the rules and regulations of regulatory agencies. If any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties in accordance with the provisions of this Manual and the adoption of measures to prevent a repetition of the violation;
- b. Issue a certification every January 30th of the year on the extent of the Corporation’s compliance with this Manual for the completed year, explaining the reason/s for its deviation/s if any;
- c. Identify, monitor and suggest ways to control compliance with the rules and regulations of regulatory agencies, and take appropriate corrective measures to address all regulatory issues and concerns; and

d. Appear before the Securities and Exchange Commission (“SEC”) when summoned in relation to compliance with this Manual.

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

2.2 Plan of Compliance

2.2.1 Board of Directors

Compliance with the principles of good corporate governance shall start with the Board of Directors.

a. Composition of the Board

The Board shall be composed of at least seven (7), but not more than fifteen (15), members who are elected by the shareholders.

b. General Responsibility of the Board

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

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

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

c. Specific Duties and Functions of the Board

To insure a high standard of best practice for the Corporation and its stakeholders, the Board shall conduct itself with honesty and integrity in the performance of the following duties and functions:

i. Install and implement a process for the selection of directors to ensure a mix of competent directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies.

- ii. Appoint competent, professional, honest and highly motivated management officers, and adopt an effective succession planning program for Management.
- iii. Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices.
- iv. Identify the Corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them through an effective investor relations program that will keep them informed of important developments in the Corporation.
- v. Adopt a system of internal checks and balances. A regular review of the effectiveness of such system shall be conducted to ensure the integrity of the decision-making and reporting processes at all times. There shall be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness.
- vi. Identify key risk areas and key performance indicators and monitor these factors with due diligence to enable the Corporation to anticipate and prepare for possible threats to its operational and financial viability.
- vii. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;
- viii. Keep Board authority within the powers of the Corporation as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations;
- ix. Provide sound strategic policies and guidelines to the Corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- x. Identify the sectors in the community in which the Corporation operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- xi. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major shareholders, officers and directors, including their spouses, children and

dependent siblings and parents, and of interlocking director relationships by members of the Board.

- xii. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- xiii. Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its shareholders, and the Corporation and third parties, including the regulatory authorities.
- xiv. Appoint a Compliance Officer who shall have the rank of at least Vice President. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

d. Specific Duties and Responsibilities of a Director

A director shall have the following duties and responsibilities:

- i. To conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions nor conflict with the interests of the Corporation;
 - ii. To devote time and attention necessary to properly discharge his/her duties and responsibilities;
 - iii. To act judiciously;
 - iv. To exercise independent judgment;
 - v. To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the rules, regulation and requirements of the SEC, and where applicable, the requirements of other regulatory agencies;
 - vi. To observe confidentiality; and,
 - vii. To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.
- e. Qualifications

The directors shall possess such qualifications for membership in the Board as prescribed by the Corporation Code, Securities Regulation Code and other relevant laws, rules and regulations. The non-executive directors shall possess such qualifications and stature

that would enable them to effectively participate in the deliberations of the Board.

In addition, the Corporation shall require all of its directors before assuming office as such, to attend a seminar on corporate governance conducted by a duly recognized private or government institute.

f. Disqualifications

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

- i. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his/her fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person or any of them;
- ii. Any person who, by reason of misconduct, after hearing, is permanently enjoined by final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities;
- iii. The disqualification shall also apply if such person is currently the subject of an order of the SEC 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 SEC or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the SEC or BSP, or has otherwise restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;
- iv. Any person judicially convicted by final judgment of an offense involving moral turpitude, fraud, embezzlement, theft, estafa,

counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

- v. Any person finally found by the SEC or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation or order of the SEC or BSP;
- vi. Any person judicially declared to be insolvent;
- vii. Any person earlier elected as independent director who becomes an officer, employee, or consultant of the same Corporation;
- viii. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
- ix. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment.

Any of the following shall be a ground for the temporary disqualification of a director:

- i. Refusal to fully disclose the extent of his/her business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his/her refusal persists;
- ii. Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during his/her incumbency, or any twelve (12) month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election;
- iii. Dismissal/termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he/she has cleared himself of any involvement in the alleged irregularity;
- iv. Being under preventive suspension by the Corporation;
- v. Conviction that has not yet become final referred to in the grounds for the disqualification of directors; and

- vi. If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries or affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.

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

- g. Board Meetings and Quorum Requirement

- i. The members of the Board should attend its regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of the SEC.
- ii. Independent directors should always attend Board meetings. Unless otherwise provided in the By-Laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one independent director in all its meetings.
- iii. To monitor the directors' compliance with the attendance requirements, the Corporation shall submit to the SEC, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certificate of attendance shall be signed by the Corporate Secretary and countersigned by the Chairman of the Board.

- h. Remuneration of Directors and Officers

The levels of remuneration of the Corporation should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. No director shall participate in deciding on his/her remuneration. The Corporation's annual reports and information and proxy statements shall include a clear, concise and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year.

- i. Penal Sanctions

A corporate director/officer shall be removed from office, in the manner provided by law, if he/she commits any of the following acts:

- i. When he/she willfully and knowingly votes or assents to a patently unlawful act;

- ii. When he/she is guilty of gross negligence or bad faith in the conduct of the corporate affairs;
- iii. When he/she acquires personal or pecuniary interest which is in conflict with his/her duty as such officer;
- iv. When he/she commits acts in violation of the pertinent and material provisions of the Corporation Code of the Philippines, the Securities Regulations Code, its implementing rules and regulations and corresponding amendments on the fiduciary duties of a corporate director or officer; and,
- v. The corporate director or officer shall be personally liable for acts committed under paragraphs (i), (ii), and (iii) above.

The penalty of removal from office imposed hereunder shall be without prejudice to the Corporation's right to file the appropriate civil or criminal case against the corporate director or officer involved.

2.2.2. The Chairman and Chief Executive Officer (“CEO”)

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

If the positions of Chairman and CEO are unified, the proper checks and balances should be laid down to ensure that the Board gets the benefit of independent views and perspectives.

In addition to the duties imposed under the By-Laws, the Chairman shall perform the following duties and responsibilities in relation to the Board:

- a. Ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman may deem necessary;
- b. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and
- c. Maintain qualitative and timely lines of communication and information between the Board and Management.

2.2.3. Board Committees

To aid in complying with the principles of good corporate governance, the Board shall constitute the following Committees:

a. Audit Committee

- i. The Audit Committee shall be composed of at least three (3) members of the Board, who shall preferably have accounting and finance backgrounds, one (1) of whom shall be an Independent Director, who shall act as the Chairman, and another shall have audit experience. Each member shall have at least an adequate understanding or competence of most of the Corporation's financial management systems and environment.
- ii. Duties and Responsibilities
 - Check all financial reports against its compliance with pertinent accounting standards, including laws and regulatory requirements;
 - Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
 - Pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit;
 - Review the annual internal audit plan to ensure its conformity with the objectives of the Corporation. The plan shall include the audit scope, resources and budget necessary to implement it;
 - Perform oversight functions with the internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
 - Elevate to international standards the accounting and auditing processes, practices and methodologies of the Corporation;
 - Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Corporation;
 - 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;

- Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
 - Organize an internal audit department, and consider the 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 the reports submitted by the internal and external auditors;
 - Review the quarterly, half-year and annual financial statements and before their submission to the Board, with particular focus on the following matters:
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental area;
 - (c) significant adjustments resulting from the audit;
 - (d) going concern assumptions;
 - (e) compliance with accounting standards; and
 - (f) compliance with tax, regulatory and legal requirements.
 - 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 annual income of the external auditor and to the Corporation's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his/her duties as an external auditor or may pose a threat to his/her independence. The non-audit work, if allowed, shall be disclosed in the corporation's annual report;
 - Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his/her duties and responsibilities. He/She shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he/she shall be free from interference by outside parties.
- b. The Board, if it deems necessary, may also constitute the following Committees:

i. Nomination Committee

The Nomination Committee may be composed of at least three (3) members of the Board of Directors, one of whom shall be an independent director, and such other persons as the Board of Directors may designate. The Committee, if constituted, may be tasked by the Board to review and evaluate the qualifications of all persons nominated to the Board of Directors as well as those nominated to other positions requiring appointment by the Board.

ii. Compensation and Remuneration Committee

The Compensation or Remuneration Committee may be composed of at least three (3) members, one of whom shall be an independent director. The Committee, if constituted, may be tasked by the Board to establish the appropriate procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment.

2.2.4 Independent Directors

- a. The Corporation shall have at least two (2) independent directors or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is higher, but in no case less than two (2). The independent directors shall possess such qualifications for membership in the Board as prescribed by the Securities Regulation Code, its implementing rules and regulations and other relevant laws, rules and regulations.
- b. An "independent director" means a person who, apart from his/her fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his/her exercise of independent judgment in carrying out his/her responsibilities as a director of the corporation and includes, among others, any person who:
 - i. Is not a director or officer of the Corporation or of its related companies or any of its substantial shareholders except when an independent director of any of the foregoing;
 - ii. Does not own more than two percent (2%) of the shares of the Corporation and/or its related companies or any of its substantial shareholders;
 - iii. Is not related to any director, officer or substantial shareholder of the Corporation, any of its related companies or any of its

substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;

- iv. Is not acting as a nominee or representative of any director or substantial shareholder of the Corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
 - v. Has not been employed in any executive capacity by the Corporation, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
 - vi. Is not retained, either personally or through his/her firm or any similar entity, as professional adviser, by the Corporation, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; or
 - vii. Has not engaged and does not engage in any transaction with the Corporation and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he/she is a partner and/or a company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.
- c. A “related company” means another company which is: (a) its holding company; (b) its subsidiary; or (c) a subsidiary of its holding company; and a “substantial shareholder” means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

2.2.5 The Corporate Secretary

- a. The Corporate Secretary is an officer of the Corporation and must comply with his/her responsibilities as set out in the By-Laws of the Corporation.
- b. The Corporate Secretary shall be a Filipino citizen and a resident of the Philippines.
- c. Considering his/her varied functions and duties, he/she must possess administrative and interpersonal skills, and if he/she is not the general counsel, then he/she must be aware of the laws, rules and regulations necessary in the performance of his/her duties and responsibilities. The Corporate Secretary must also have a working knowledge of the operations of the Corporation. He/She must be loyal to the mission,

vision and objectives of the Corporation and be able to work fairly and effectively with the Board, Management and shareholders.

d. **Duties and Responsibilities**

- i. Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as all other documents, records and information essential to the conduct of his/her duties and responsibilities to the Corporation as set out in the By-Laws;
- ii. Inform the members of the Board, in accordance with the By-Laws, of the agenda of their meetings, and ensure that the members of the Board have accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- iii. Attend all Board meetings and maintain record of the same, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
- iv. Ensure that all Board procedures, rules and regulations are strictly followed by the members;
- v. If he/she is also the Compliance Officer, perform all the duties and responsibilities of the said officer provided in this Manual; and
- vi. Submit a certification to the SEC every 30th of January of the year regarding the attendance of the directors during Board meetings, countersigned by the Chairman of the Board.

2.2.6 Adequate and Timely Information

- a. To enable the members of the Board to properly fulfill their duties and responsibilities, Management shall provide them with complete, adequate and timely information about the matters to be taken in their meetings. Members of the Board shall be given independent access to Management and the Corporate Secretary.
- b. The members, either individually or as a Board, and in furtherance of their duties and responsibilities, shall have access to independent professional advice at the Corporation's expense.

2.2.7 Accountability and Audit

- a. The Board is primarily accountable to the shareholders. Thus, Management shall provide them with a balanced and comprehensible assessment of the Corporation's performance, position and prospects on a quarterly basis, including interim and other reports that could

adversely affect its business, as well as reports to regulators that are required by law, to comply with its responsibilities to its shareholders.

- b. Management shall formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:
 - i. The extent of its responsibility in the preparation of the financial statements of the Corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor shall be clearly explained;
 - ii. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Corporation shall be maintained;
 - iii. On the basis of the approved audit plans, internal audit examinations shall cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations; and
 - iv. The Corporation shall consistently comply with the financial and reporting requirements of the SEC.

2.2.8 External Auditor

- a. The Board, after consultations with the Audit Committee, shall recommend to the shareholders an external auditor duly accredited by the SEC who shall undertake an independent audit of the Corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the shareholders.
- b. An external auditor shall maintain an environment of good corporate governance in the preparation of financial records and reports of the Corporation.
- c. The reason for the resignation, dismissal, or cessation from service and the date thereof of an external auditor shall be reported in the Corporation's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which the former auditor and the Corporation failed to resolve satisfactorily. A preliminary

copy of the said report shall be given by the Corporation to the external auditor before its submission.

- d. The external auditor shall not at the same time provide internal audit services to the Corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his/her duties as an independent auditor, or does not pose a threat to his/her independence.
- e. The Corporation's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.
- f. If an external auditor believes that the statements made in the Corporation's annual report, information statement or proxy statement or any report filed with the SEC or any regulatory body during his/her engagement is incorrect or incomplete, he/she shall present his/her views in said reports.

2.2.9 Internal Auditor

- a. The Corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and shareholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
- b. The Internal Auditor shall report to the Audit Committee.
- c. The minimum internal control mechanisms for Management's operational responsibility shall center on the President, being ultimately accountable for the Corporation's organizational and procedural controls.
- d. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.
- e. The Internal Auditor shall submit to the Audit 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 Committee. The annual report shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor shall certify that he/she conducts his/her activities in accordance with the International Standards on the

Professional Practice of Internal Auditing. If he/she does not, he/she shall disclose to the Board and Management the reasons why he/she has not fully complied with the said standards.

3. NOMINATION AND ELECTION OF DIRECTORS

The following rules shall apply with respect to the nomination and election of all members of the Corporation's Board of Directors:

- 3.1 Nomination of directors shall be conducted by the Nomination Committee prior to the annual shareholders' meeting. All recommendations shall be signed by the nominating shareholders together with the acceptance and conformity of the would-be nominees and shall be submitted to the Nomination Committee and the Corporate Secretary at least forty five (45) calendar days before the date of the actual meeting.
- 3.2 The Nomination Committee shall pre-screen the qualifications and prepare a Final List of all Candidates for directors and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for directors.
- 3.3 After the nomination, the Nomination Committee shall prepare a Final List of Candidates to be submitted to the Board of Directors, which shall contain all the information regarding the background and experience of the nominees required to be ascertained and made known under the Securities Regulation Code and relevant rules and regulations of the SEC. Said Final List of Candidates shall be disclosed in the reports required by law, rules and regulations to be submitted to the SEC and to all shareholders.
- 3.4 Only nominees whose names appear on the Final List of Candidates shall be eligible for election as directors. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual shareholder's meeting.
- 3.5 It shall be responsibility of the Chairman of the shareholders' meeting to inform all shareholders in attendance of the mandatory qualifications and procedures for nominating and electing directors.
- 3.6 Specific slots for independent directors shall not be filled up by unqualified nominees.
- 3.7 Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the SEC by appointing independent directors from the list of nominees submitted by the shareholders.
- 3.8 In case of failure of election, resignation, disqualification or cessation of independent directorship, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancy shall be filled only by candidates approved by the Nomination Committee.

An independent director so elected to fill a vacancy shall serve only for the unexpired term of his/her predecessor in office.

4. COMMUNICATION PROCESS

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

5. REPORTORIAL OR DISCLOSURE SYSTEM OF COMPANY'S CORPORATE GOVERNANCE POLICIES

- 5.1 The reports or disclosures required under this Manual shall be prepared and submitted to the SEC by the responsible Committee or officer through the Corporation's Compliance Officer.
- 5.2 The Corporation shall publicly and timely disclose all material information, which could adversely affect the interest of its shareholders, in accordance with the Securities and Regulations Code and its implementing rules and regulations. Such information shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership.
- 5.3 All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.

The Corporation shall comply with all disclosure requirements imposed by the SEC and the Philippine Stock Exchange on listed and registered companies.

6. SHAREHOLDERS' BENEFIT

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

6.1 Voting Right

Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code and the By-Laws of the Corporation.

6.2 Power of Inspection

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code.

6.3 Right to Information

The shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain matters such as their holdings of the Corporation's shares, dealings with the Corporation, relationships among directors and key officers, and the aggregate compensation of directors and officers.

6.4 Right to Dividends

Shareholders shall have the right to receive dividends subject to the discretion of the Board and in accordance with law.

6.5 Appraisal Right

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares. All rights granted by law to shareholders shall be observed by the Corporation.

6.6 Protection of Shareholders' Rights by Directors

The Board should be transparent and fair in the conduct of the annual and special shareholders' meetings of the Corporation. The shareholders 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 shareholder's favor.

It shall be the duty of directors to promote shareholders' rights, remove impediments to the exercise of these rights, and allow possibilities to seek redress for violation of their rights. The Board shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person.

Accurate and timely information should be made available to the shareholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all shareholders should be treated equally or without discrimination, the Board may give minority shareholders 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 as far as practicable and consistent with the relevant provisions of the By-Laws.

7. MONITORING AND ASSESSMENT

- 7.1 Each Committee shall report regularly to the Board of Directors.
- 7.2 This Manual shall be subject to quarterly review unless the same frequency is amended by the Board.
- 7.3 All business processes and practices being performed within any department or business unit of HARBOR STAR SHIPPING SERVICES, INC. that are inconsistent with any portion of this manual is deemed revoked unless upgraded to the compliant extent.

8. PENALTIES FOR NON COMPLIANCE WITH THE MANUAL

- 8.1 To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's directors, officers and staff in case of violation of any of the provision of this Manual:
 - 8.1.1 In case of first violation, the subject person shall be reprimanded.
 - 8.1.2 Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
 - 8.1.3 For third violation, the maximum penalty of removal from office shall be imposed.
- 8.2 The commission of a third violation of this Manual by any member of the Board of the Corporation shall be sufficient cause for removal from directorship.
- 8.3 The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

Signed:

(original copy signed)
GERONIMO P. BELLA JR.
Chairman of the Board