

# Corporate Governance Commentary



Ceylon Cold Stores PLC - Annual Report 2019/20

# Corporate Governance Commentary

## 1. Executive Summary

Over the past 150 years, the John Keells Group has crafted an extensive portfolio of businesses aligned with the key growth sectors of the economy, underpinned by a comprehensive and well-structured governance framework which is institutionalised across all its business units. Ceylon Cold Stores PLC (CCS) and its subsidiaries (collectively CCS Group) has its own set of internal benchmarks, processes and structures towards meeting accepted best practice, in addition to the “triggers” which ensure compliance with mandatory regulatory requirements. This framework is regularly reviewed and updated to reflect global best practices, evolving regulations, and dynamic stakeholder needs, while maintaining its foundational principles of accountability, participation and transparency.

The ensuing Report details:

- The significant components of the John Keells Holdings PLC (JKH) Corporate Governance System
- The monitoring mechanism in place to ensure strict compliance to the CCS Group’s Governance policy
- The outlook and emerging challenges for corporate governance
- CCS Group’s compliance with all mandatory requirements of law and its voluntary adoption of recommended codes in the governance field

## 1.1 Compliance Summary

### 1.1.1 Regulatory Benchmarks

Standard / Principle / Code	Adherence
The Companies Act No.7 of 2007	Mandatory provisions - fully compliant
Listing Rules of the Colombo Stock Exchange (CSE)	Mandatory provisions - fully compliant
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, including directives and circulars	Mandatory provisions - fully compliant
Code of Best Practices on Related Party Transactions (2013) advocated by the Securities and Exchange Commission of Sri Lanka (SEC)	Mandatory provisions – fully compliant
Code of Best Practices on Corporate Governance (2013) jointly advocated by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)	Voluntary provisions - fully compliant
Code of Best Practices on Corporate Governance (2017) issued by CA Sri Lanka	Voluntary provisions - compliant with almost the full 2017 code to the extent of business exigency and as required by the CCS Group

### 1.1.2 Key Internal Benchmarks

- Articles of Association of the Company
- Recruitment and selection policies
- Learning and development policies
- Policies on equal opportunities, non-discrimination, career management and promotions
- Rewards and recognition policy
- Leave, flexi-hours, tele-working and work from home policies, including health and safety enhancements and protocols in light of the COVID-19 pandemic
- Code of conduct, which also includes policies on gifts, entertainment, facilitation payments, proprietary and confidential information
- Policy against sexual harassment
- Policies on forced, compulsory and child labour and Child Protection adopted by the John Keells Group
- Disciplinary procedure
- Policy on grievance handling
- Policy on anti-fraud, anti-corruption, anti-bribery and facilitation payments
- Policy on communications and advertising
- Ombudsperson policy
- John Keells Group accounting procedures and policies
- Policies on enterprise risk management
- Policies on fund management and Forex risk mitigation
- IT policies and procedures, including data protection and security
- John Keells Group environmental and economic policies
- Policies on energy, emissions, water and waste management
- Policies on products and services

## 1.2 Key Corporate Governance Highlights of the CCS Group for the Year 2019/20

- Given unprecedented challenges and operating conditions arising from the COVID-19 pandemic, in March 2020, the John Keells Group businesses evaluated the resilience of the businesses under multiple scenarios, including extreme operating conditions. Based on this, the CCS Board evaluated efficient and proactive measures to manage cash and costs from inception, rather than reacting to a stressed situation. Many measures have been implemented from March 2020, including cost reduction initiatives, debtor management, leveraging on moratoria made available by banks and other relief measures of the Government.
- The “Project Risk Assessment Committee”, a sub-committee of the JKH Board which was established in 2018/19 to further augment the John Keells Group’s investment and risk evaluation framework and to provide the JKH Board with increased visibility of large-scale new investment projects, convened in the aftermath of the Easter Sunday attacks to assess the market risks and impacts on the John Keells Group.

*Refer section 3.2.5 for details*

- Internal controls were further strengthened during 2019/20, where the John Keells Group institutionalised an integrated fraud deterrent and investigation framework to drive and deliver continuous improvements of its assurance related initiatives. The framework is expected to integrate the management of all aspects of fraud and stakeholder assurance; reinforce uniformity across common processes in matters relating to fraud, and employ a data driven approach to the continuous assessment of control efficacy while enabling better monitoring and further refining audit trails.

*Refer section 5.5 for details*

- During the year under review, the John Keells Group implemented a comprehensive data classification and rights management system throughout all its business units. This system is designed to improve data stewardship and management of access to sensitive information across the John Keells Group including the CCS Group, thus ensuring that all data are appropriately classified, documented and stored effectively. The implementation across data domains were supported by dedicated data owners and data stewards to ensure data privacy, data quality and rights management.

*Refer section 4.4 for details*

- The state-of-the-art cloud based Human Resource Information System (HRIS) which was implemented in March 2019, ran a full cycle of operations during the year under review, bringing into effect one of the largest, fastest and most comprehensive HRIS implementations in the country. The system manages the entire life-cycle of the employee from onboarding to performance management, succession planning, compensation, learning and development, through to off-boarding.

- During the year under review, the John Keells Group rolled-out its advanced analytics transformation programme where several well defined advanced analytics use cases focused several businesses were piloted and implemented. This was further augmented by investments channelled towards Human Capital, particularly towards recruitment and developing capabilities to ensure that a lasting and sustainable advanced analytics capability is built.
- The CCS Board declared and paid a final dividend of Rs. 8.00 per share in June 2019 for the financial year 2018/19. For the year under review, the Board declared and paid an interim dividend of Rs. 12.00 per share in March 2020.

## 1.3 Highlights of the 122<sup>nd</sup> Annual General Meeting Held on 14<sup>th</sup> June 2019

- Ms. S T Ratwatte who retired in terms of Article 84 of the Articles of Association of the Company was re-elected as a Director of the Company.
- Dr. R S W Wijeratnam who retired in terms of Article 84 of the Articles of Association of the Company was re-elected as a Director of the Company.
- Messrs. Ernst & Young (E&Y) were re-appointed as the External Auditors of the Company and the Directors were authorized to determine the remuneration of E&Y.

## 1.4 Outlook and Emerging Challenges

In an environment of dynamic corporate change and global volatility, a solid corporate governance framework remains a vital component of the CCS Group’s ability in meeting diverse stakeholders’ needs and creating sustainable value. The CCS Group will continue to stay abreast of governance best practice, and assess its level of preparedness and its capability in meeting external challenges.

Concurrently, corporate disintegrations, the pursuit of continuous improvement in governance and a call for increased accountability and transparency continue to influence and shape selected governance aspects. The more significant challenges, amongst many others, being recurrently addressed by the CCS Group are detailed in the ensuing section.

### 1.4.1 Board Diversity

The CCS Group acknowledges the need for Board diversity and is conscious of the need to attract appropriately skilled Directors who reflect the values and requirements of its businesses and vision, and are also in alignment with the needs of shareholders, financiers, customers, employees and other stakeholders. In doing so, the CCS Group maintains a strong culture of meritocracy, ensuring that Board diversity does not come at the expense of Board effectiveness.

Women comprise a significant proportion of the employee populations of the CCS Group, and every effort is made to attract appropriately qualified women to the CCS Group’s various Boards.

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## 1.4.2 Shareholder Activism

Increasing reports of mismanagement within corporates across the globe have resulted in increased shareholder activism with Boards being held increasingly accountable and responsible for performance. To meet such challenges, the CCS Group will continue to focus on maintaining suitable channels of communication with investors and analysts, as required, on a timely basis.

## 1.4.3 Continual Strengthening of Internal Controls

Augmenting transactional and financial internal controls with operational aspects, in line with international best practice, remains a medium-term priority for the CCS Group. Continuous strengthening of internal controls through a streamlined process that optimises and facilitates process audit information, life cycle management and related processes are expected to:

- eliminate inefficiencies inherent in manual processes
- provide a platform based on process enforcement
- enable management follow-up based on centrally held data in a compliance repository
- identify trends, action taken, effectiveness and opportunities for process improvement by analysing movement of the compliance posture

## 1.4.4 Data Protection, Information Management and Adoption

Although the CCS Group has continuously evolving IT infrastructure and platforms to meet requirements of day-to-day business, adoption of such systems and features still remain at an early stage across the CCS Group. To address this divergence, awareness sessions are being conducted to better drive user adoption.

Given the emergence of regulations such as European Union General Data Protection Regulation (GDPR), data security, integrity and information management will be pivotal. To this end, the CCS Group will continue to strengthen its data governance structure to ensure

ownership and accountability of clearly articulated data governance policies, processes and data quality standards.

## 1.4.5 Digital Oversight and Cyber Security

The rapidly advancing nature of technology and the continual integration of the CCS Group's operations with technological progress has resulted in increased vulnerability for the CCS Group from a digital standpoint. As a result, the Board places significant emphasis on ensuring that the CCS Group's soft and hard infrastructure is adequate to meet a potential breach. Data protection and cyber security are regularly addressed during the Risk Management and Audit Committee meetings and periodically discussed at a Board level.

## 1.4.6 Board Independence and Refreshment

Although there is a school of thought that frequent Board refreshment is beneficial to ensure independence, fresh ideas and new experiences in line with the changing nature of business another school of thought argues to the contrary, that tenured and experienced Directors who are well aware of the nature of the business are better decision makers. The CCS Group believes in striking a balance between these two schools of thought, particularly given the complex nature of its operations.

## 1.4.7 Greater Employee Involvement in Governance

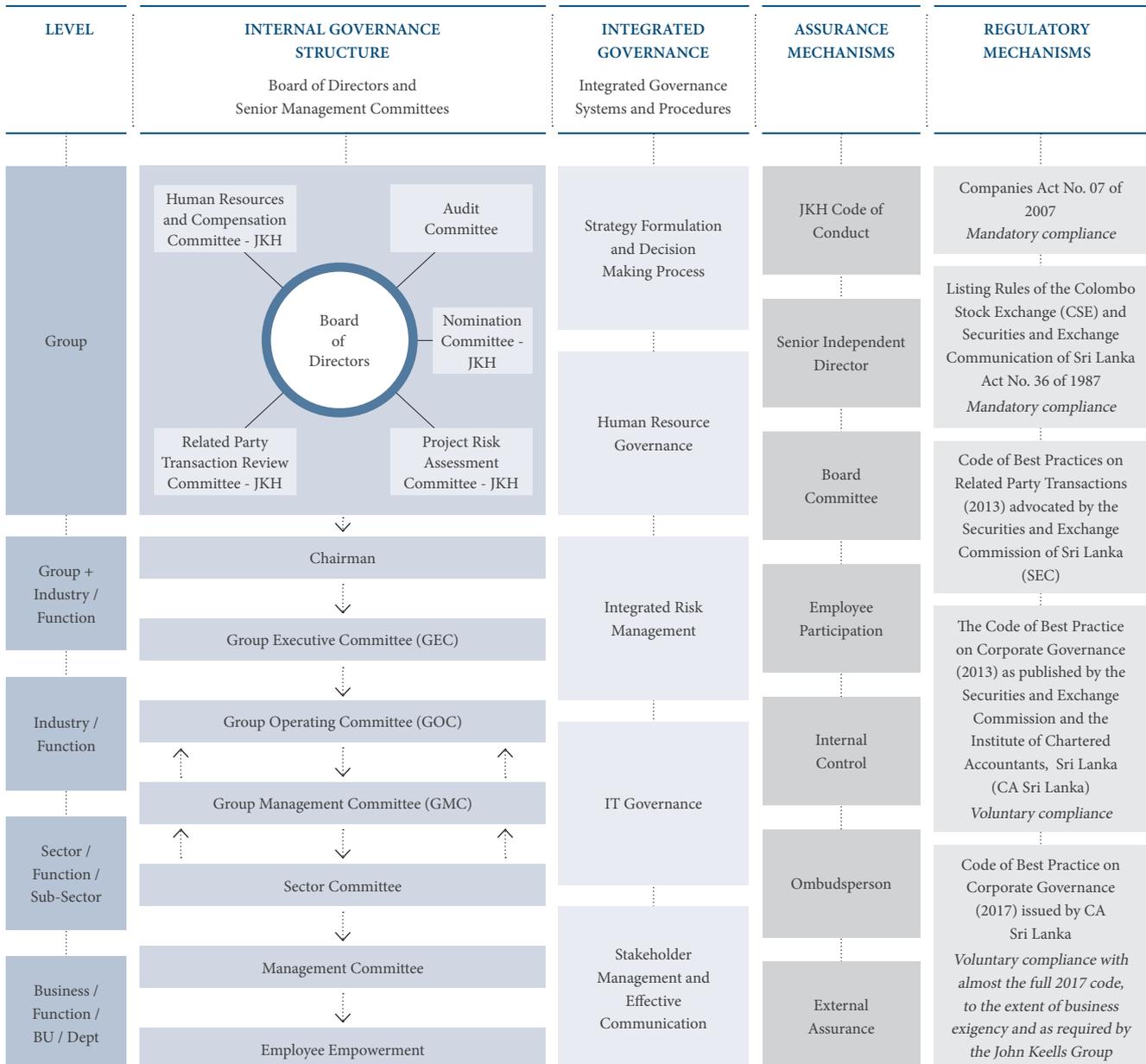
Employees play a pivotal role in reinforcing an effective governance system across the CCS Group. It will continue to encourage greater employee participation through:

- a further strengthened continuous performance management process, which envisage continuous feedback and enhanced engagement via the newly implemented employee information systems
- engagement and empowerment via greater delegation of authority
- increased communication and collaboration
- adoption of differentiated means of communication based on the age dynamics of employee segments

## 1.5 Key Governance Disclosures

Standard / Principle / Code	Section under Corporate Governance Commentary
The Governance System	2
The Board of Directors	3.1
Audit Committee	3.2.1
Human Resources and Compensation Committee of the parent company JKH	3.2.2
Nominations Committee of the parent company JKH	3.2.3
Related Party Transactions Review Committee of the parent company JKH	3.2.4
Role of Chairman	3.3
Group Executive Committee and other Management Committees	3.4
Human Resource Governance	4.2
Stakeholder management and effective communication	4.5
Assurance mechanisms	5
Compliance Summary	7

## 2. The Corporate Governance System - JKH PLC

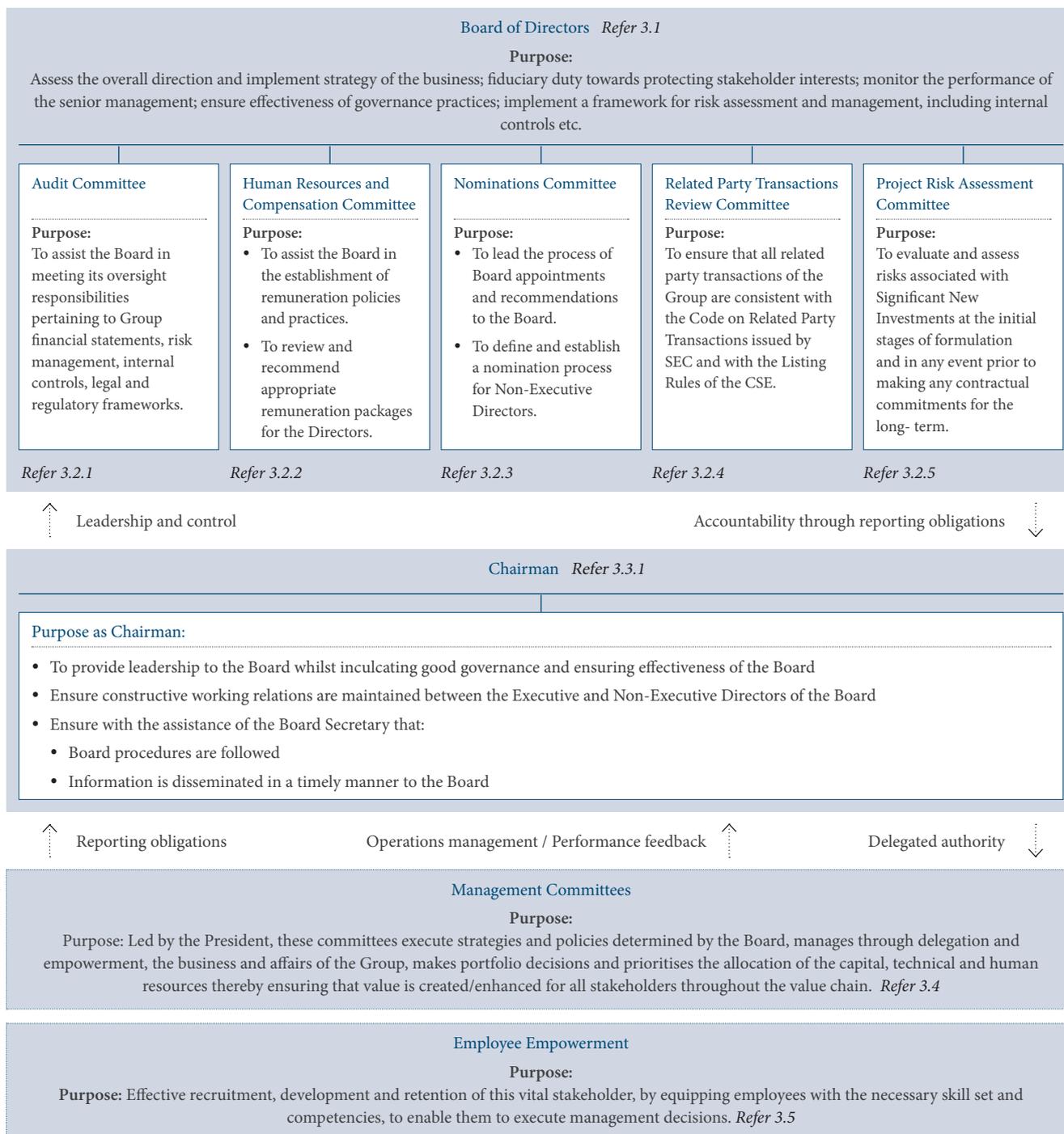


- Except for the Audit Committee the other four Boards Sub-Committees of JKH, act on behalf of CCS and are chaired by Independent Directors appointed by the JKH Board. The Audit committee is appointed by the CCS Board.
- The Chairman is present at all Human Resources and Compensation Committee meetings unless the Chairman's performance assessment or remuneration is under discussion. The Deputy Chairman/ Group Finance Director is invited as necessary.
- Audit Committee meetings are attended by the President and Chief Financial Officers of CCS and Jaykay Marketing Services (Pvt) Ltd (JMSL) and the Head of Group Business Process Review, Internal and External Auditors are regular attendees.
- GOC acts as the binding agent to the various businesses within the CCS Group towards identifying and extracting CCS Group synergies.
- Only the key components are depicted in the above diagram due to space constraints.

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## 3. Internal Governance Structure

The Internal Governance Structure comprises of the committees which formulate, execute and monitor CCS Group strategies and initiatives and the policies, processes and procedures employed for doing so. These components have an impact on the execution and monitoring of all governance related initiatives, systems and methods, and is illustrated as follows:



The above components in the structure are strengthened and complemented by internal policies, processes and procedures such as strategy formulation and decision making, human resource governance, sustainability governance, integrated risk management, IT governance and stakeholder management and effective communication.

### 3.1 The Board of Directors

#### 3.1.1 Board Responsibilities

In carrying out its responsibilities, the Board promotes a culture of openness, constructive dissent and productive dialogue, ensuring an environment which facilitates employee empowerment, engagement and creates value to all stakeholders.

The Board's key responsibilities include:

- Providing direction and guidance to the CCS Group in the formulation of sustainable high-level medium and long-term strategies which are aimed at promoting the long-term success of the CCS Group
- Reviewing and approving annual plans and long-term business plans
- Tracking actual progress against plans
- Reviewing Human Resources (HR) processes with emphasis on top management succession planning
- Ensuring operations are carried within the scope of the Enterprise Risk Management framework
- Monitoring systems of governance and compliance
- Overseeing systems of internal control, risk management and establishing whistle-blowing conduits

- Determining any changes to the discretions/authorities delegated from the Board to the executive levels
- Reviewing and approving major acquisitions, disposals and capital expenditure
- Approving any amendments to constitutional documents
- Applying in principle the issue of equity/debt securities
- Ensuring all Related Party Transactions are compliant with statutory obligations

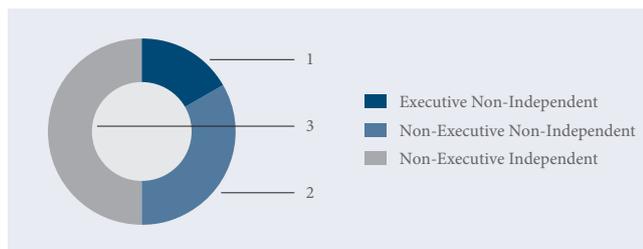
#### 3.1.2 Board Composition

As at 31<sup>st</sup> March 2020, the Board comprised six Directors, with three of them being Non-Executive Independent (NED/ID), two of them being Non-Executive Non-Independent (NED/NID) and one of them being Executive Non-Independent (ED/NI). The Group policy is to maintain a healthy balance between the Executive Directors (ED), Non-Executive Directors (NED) and Independent Directors (ID), in keeping with the applicable rules and codes, with the EDs bringing in deep knowledge of the businesses and the NED/IDs bringing in experience, objectivity and independent oversight.

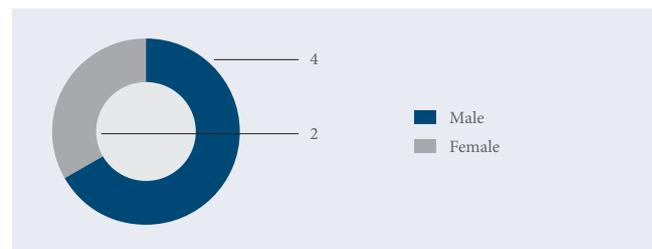
There were no key changes to the Board composition during the year under review.

The current composition of CCS Board is illustrated as follows:

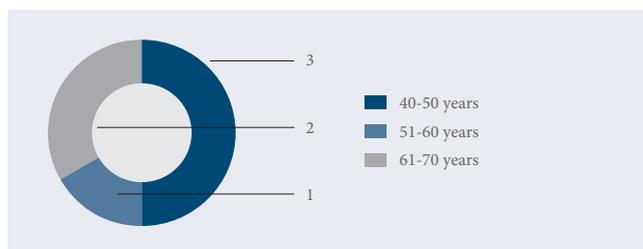
#### Designation



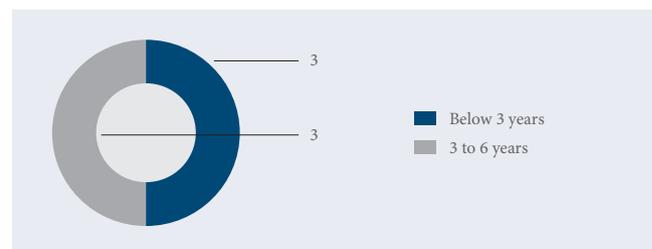
#### Gender



#### Age Group



#### Board Tenure



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## **3.1.3 Board Skills**

Collectively, the Board brings in a wealth of diverse exposure in the fields of management, business, administration, banking, finance, law, economics, marketing and human resources. All Directors possess the skills, expertise and knowledge complemented with a high sense of integrity and independent judgment.

Further details of their qualifications and experience are provided under the Board of Directors section of the Annual Report.

The Group is conscious of the need to maintain an appropriate mix of skills and experience in the Board through a regular review of its composition in order to ensure that the skills representation is in alignment with current and future needs of the Group.

## **3.1.4 Access to Independent Professional Advice**

To preserve the independence of the Board and to strengthen the decision making, the Board seeks independent professional advice, in furtherance of their duties, at the Group's expense. This is coordinated through the Board Secretary as and when requested.

## **3.1.5 Board Appointment**

Board appointments follow a structured and formal process within the purview of the Nominations Committee. The Nominations Committee of JKH, the ultimate parent company, functions as the Nominations Committee of CCS. The Terms of Reference for the members of the Nominations Committee can be found in section 3.2.3 of this Commentary.

Details of new Directors are disclosed to Shareholders at the time of their appointment through a public announcement made at the CSE. Details of such appointments are also carried in the respective Interim Release and the Annual Report. Directors are required to report any substantial change in their professional responsibilities and business associations to the Nominations Committee, which will examine the facts and circumstances and make recommendations to the Board accordingly.

## **3.1.6 Board Induction and Training**

When Directors are newly appointed to the Board, they undergo a comprehensive induction where they are apprised, inter-alia, of the CCS Group values and culture, its operating model, policies, governance framework and processes, the JKH Code of Conduct and the operational strategies of the CCS Group.

Additionally, the newly appointed Directors are granted access to relevant parts of the business and are availed the opportunity to meet with key management personnel and other key third-party service providers such as External Auditors, Risk Consultants etc.

Directors are encouraged to update their skills and knowledge on a continuous basis and this is facilitated through the following activities.

- Access to External and Internal Auditors
- Periodic reports on performance
- Updates on topics that range from proposed/new regulations to industry best practices
- Opportunities to meet Senior Management of the Managing Agents in a structured setting
- Access to industry experts and other external professional advisory services
- Access to the Centre Legal, Tax and Finance Divisions of the John Keells Group of which the Company is a member; and
- The services of the Company Secretary

The Board of Directors recognise the need for continuous training and expansion of knowledge and undertakes such professional development, as they consider necessary, to assist them in carrying out their duties as Directors.

## **3.1.7 Re-election**

All Non-Executive Independent Directors are appointed for a period of three years and are eligible for re-election by the shareholders. Non-Executive Independent Directors can serve up to a maximum of three successive terms unless an extended Board tenure is necessitated by the requirements of CCS Group. Annually, the Board discusses the possibilities of any impairment of Directors independence due to extended Board tenures, and collectively evaluates the re-election of such Board members. All Directors including the Executive Directors, other than the Chairman, are also subject to retirement and re-election (whether following their appointment to the Board or by rotation) in accordance with the Articles of Association of the Company.

## **3.1.8 Board Meetings**

### **3.1.8.1 Regularity of Meetings and Pre-Board Meetings**

During the financial year under review, there were four pre-scheduled Board meetings. In addition to these Board meetings, where issues of strategic importance requiring extensive discussions are considered, the Board of Directors communicated regularly as and when required.

The attendance at the Board meetings held during the financial year 2019/20 is given below;

Board Meeting Attendance							
CCS	Year of Appointment	23/04/2019	29/07/2019	28/10/2019	27/01/2020	Eligibility	Attended
<b>Non-Executive Non-Independent</b>							
Mr. K N J Balendra – Chairman	2018	✓	✓	✓	✓	4	4
Mr. J G A Cooray	2018	✓	✓	✓	✓	4	4
<b>Executive Non-Independent</b>							
Mr. D P Gamlath	2017	✓	✓	✓	✓	4	4
<b>Non-Executive – Independent</b>							
Ms. S T Ratwatte	2016	✓	✓	✓	✓	4	4
Mr. M Hamza	2015	✓	✓	✓	✓	4	4
Dr. R S W Wijeratnam	2016	✓	✓	✓	✓	4	4

### 3.1.8.2 Timely Supply of Information

The Directors were provided with necessary information well in advance, by way of Board papers and proposals, as relevant, for all four Board meetings held during the year in order to ensure robust discussion, informed deliberation and effective decision making. The Directors continue to have independent contact with the corporate and senior management of the Group.

### 3.1.8.3 Board Agenda

The Chairman ensured that all Board proceedings were conducted smoothly and efficiently, approving the agenda for each meeting prepared by the Board Secretary. The typical Board agenda during the financial year 2019/2020 entailed ratification of circular resolutions, discussion of matters arising from the previous minutes, status updates of major projects, review of performance, strategy formulation, approval of quarterly and annual financial statements, review of risk, sustainability and corporate social responsibility related aspects, ratification of capital expenditure, among others.

### 3.1.8.4 Board Secretary

Keells Consultants (Private) Limited functions as both the Secretaries and Registrars of the Company. In addition to maintaining Board minutes and Board records, the Company Secretary provides support in ensuring that the Board receives timely and accurate information in addition to advice relating to corporate governance matters, Board procedures and applicable rules and regulations during the year. All concerns raised and wished to be recorded have been documented in sufficient detail.

### 3.1.9 Time Dedicated by Non-Executive Directors

The Board has dedicated adequate time for the fulfillment of their duties as Directors.

In addition to attending Board meetings the Directors contributed to decision making via Circular Resolutions and one-on-one meetings with key management personnel, when necessary.

### 3.1.10 Board Evaluation

The Board conducted its annual Board performance appraisal for the financial year 2019/20. This formalised process of individual appraisal enabled each member to self-appraise, on an anonymous basis, the performance of the Board under the areas of:

- Role clarity and effective discharge of responsibilities
- People mix and structures
- Systems and procedures
- Quality of participation
- Board image

The scoring and open comments are collated by an Independent Director, and the results are analysed to give the Board an indication of its effectiveness as well as areas that required addressing and/or strengthening. Despite the original anonymity of the remarks, the open and frank discussions that follow include some Directors identifying themselves as the person making the remark reflecting the openness of the Board. This process has led to an improvement in the Board dynamics and its effectiveness.

### 3.1.11 Managing Conflicts of Interests and Ensuring Independence

The Group takes necessary steps to ensure that Directors avoid situations in which they have, or could have, a direct or indirect interest which conflicts with, or might possibly conflict with, the interests of the Group.

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In order to avoid such potential conflicts or biases, the Directors make a general disclosure of interests, as illustrated below, at appointment, at the beginning of every financial year and during the year as required. Such potential conflicts are reviewed by the Board from time to time to ensure the integrity of the Board's independence. Details of companies in which Board members hold Board or Board Sub-Committee membership are available with the Company Secretaries for inspection by shareholders, on request.

Prior Appointment	Once Appointed	During Board Meetings
<ul style="list-style-type: none"> <li>Nominees are requested to make known their various interests</li> </ul>	<ul style="list-style-type: none"> <li>Directors obtain Board clearance prior to:                             <ul style="list-style-type: none"> <li>Accepting a new position</li> <li>Engaging in any transaction that could create or potentially create a conflict of interest</li> </ul> </li> <li>All NEDs are required to notify the Chairman of any changes to their current Board representations or interests and a new declaration is made annually</li> </ul>	<ul style="list-style-type: none"> <li>Directors who have an interest in a matter under discussion:                             <ul style="list-style-type: none"> <li>Excuse themselves from deliberations on the subject matter</li> <li>Abstain from voting on the subject matter (abstention from decisions are duly minuted)</li> </ul> </li> </ul>

The independence of its Non-Executive Independent Directors was reviewed on the basis of criteria summarised below;

Definition	Status of Conformity of NEDs
1. Shareholding carrying not less than 10 per cent of voting rights	None of the individual NED/IDs shareholding exceeds 1 per cent
2. Director of another company*	None of the NED/IDs are Directors of another related party company as defined
3. Income/non-cash benefit equivalent to 20 per cent of the Director's income	NED/ID income/cash benefits are less than 20 per cent of individual Director's income
4. Employment at CCS Group for two years immediately preceding appointment as Director	None of the NED/IDs are employed or have been employed at CCS Group or any of its subsidiaries or JKH Group
5. Close family member is a Director or a Key Management Personnel	No family members of the NED/IDs is a Director of a related party company
6. Has served on the Board continuously for a period exceeding NED/ID's	No NED/ID's has served on the Board for more than nine years
7. Is employed, has a material business relationship and/or significant shareholding in other companies*. Also entails other companies that have significant shareholding in CCS Group and/or CCS Group has a business connection with	None of the NED/IDs are employed, have a material business relationship or a significant shareholding of another related party company as defined

\* Other companies in which a majority of the other Directors of the listed company are employed or are Directors or have a significant shareholding or have a material business relationship.

## Summary of Non-Executive Independent Directors' Interests and Conformity

	Shareholding	Management Director	Material Business Relationship	Employed by the Group	Family Member a Director	Continuously Served for More than Nine Years
	(1)	(2)	(3)	(4)	(5)	(6)
Ms. S T Ratwatte	No	No	No	No	No	No
Mr. M Hamza	Yes	No	No	No	No	No
Dr. R S W Wijeratnam	No	No	No	No	No	No

None of the NED/ID has a conflict of interest as per the criteria for independence outlined above.

### 3.1.11.1 Details in Respect of Directors

The following table illustrates the total number of Board seats (excluding John Keells Group Board seats) held in other listed companies (outside the John Keells Group) by each Director.

Name of Director	No. of Board Seats Held in Other Listed Sri Lankan Companies	
	Executive Capacity	Non-Executive Capacity
Mr. K N J Balendra	Nil	Nil
Mr. J G A Cooray	Nil	Nil
Mr. D P Gamlath	Nil	Nil
Ms. S T Ratwatte	Nil	BPPL Holdings PLC
Mr. M Hamza	Nil	Gestetner of Ceylon PLC
Dr. R S W Wijeratnam	Nil	Nil

### 3.1.12 Director Remuneration

#### 3.1.12.1 Executive Director Remuneration

As permitted by the Listing Rules of the CSE, the Human Resources and Compensation Committee of JKH is responsible for determining the compensation of the EDs of the CCS Group. Refer Section 3.2.2 of this Commentary for further details.

A significant proportion of ED remuneration is variable. The variability is linked to the peer adjusted consolidated Group bottom line and expected returns on shareholder funds. Further, the Human Resources and Compensation Committee consults the Chairman about any proposals relating to the ED remuneration, other than that of the Chairman.

During the year, Employee Share Options (ESOPs), valued using a binomial pricing model, were granted to the EDs as well as to all other eligible employees. Further details are found in the Notes to the Financial Statements section and Share Information section of the Annual Report.

Total aggregate of EDs remuneration for the year under review was Rs. 26.6 million. (2018/2019 - Rs. 27 million)

#### 3.1.12.2 Non-Executive Director Remuneration

Compensation of NEDs is determined in reference to fees paid to other NEDs of comparable companies and is adjusted where necessary in keeping with the complexity of the CCS Group. The fees received by NEDs are determined by the Board and reviewed annually. NEDs do not receive any performance/incentive payments and are not eligible to participate in any of the JKH Group's share option plans. NEDs fees are not subject to time spent or defined by a maximum/minimum number of hours committed to the CCS Group per annum, and hence are not subject to additional/lower fees for additional/lesser time devoted.

It is noted that fees payable to Non-Executive nominees of JKH are paid to JKH and not to individual Directors.

Total aggregate of NED remuneration for the year was Rs. 6 million. (2018/2019 - Rs. 6.9 million)

#### 3.1.12.3 Compensation for Early Termination

In the event of an early termination of a Director, there are no compensation commitments other than for:

- Executive Directors: as per their employment contract similar to any other employee
- Non-Executive Directors: accrued fees payable, if any, as per the terms of their contract

### 3.2 Board Sub-Committees

The Board has delegated certain functions to Board Sub-Committees, while retaining final decision rights. Members of these Sub-Committees focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise.

The five Board Sub-Committees are as follows:

- Audit Committee
- Human Resources and Compensation Committee of the Parent Company – JKH
- Nominations Committee of the Parent Company – JKH
- Related Party Transactions Review Committee of the Parent Company – JKH
- Project Risk Assessment Committee of the Parent Company – JKH

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## 3.2.1 Audit Committee

No of meetings - 4

Composition	<ul style="list-style-type: none"> <li>All members to be NED/IDs, with at least one member having significant, recent and relevant financial management and accounting experience and a professional accounting qualification.</li> <li>The Sector President / Sector Chief Financial Officer and Head of Group Business Process Review of JKH are permanent invitees for all Committee meetings.</li> </ul>
Scope	<ul style="list-style-type: none"> <li>Review the quarterly and annual Financial Statements, including the quality, transparency, integrity, accuracy and compliance with accounting standards, laws and regulations</li> <li>Assess the adequacy and effectiveness of the internal control environment in the CCS Group and ensure appropriate action is taken on the recommendation of the internal auditors</li> <li>Evaluate the competence and effectiveness of the risk management systems of the CCS Group and ensure the robustness and effectiveness in monitoring and controlling risks</li> <li>Review the adequacy and effectiveness of the internal audit arrangements</li> <li>Recommend the appointment, re-appointment and removal of the External Auditors including their remuneration and terms of engagement by assessing qualifications, expertise, resources and independence</li> </ul>

The CCS Group's Audit Committee comprise three NED/IDs where one of them has current membership of a reputed accountancy body. The CCS Group's Audit Committee had four meetings during the year and attendance of the Audit Committee members are indicated in the Audit Committee Report.

The Audit Committee consisted of the following members

- Ms. S T Ratwatte – Chairperson
- Mr. M Hamza
- Dr. R S W Wijeratnam

## 3.2.2 Human Resources and Compensation Committee of the Parent Company – JKH

No of meetings - 2

Composition	<ul style="list-style-type: none"> <li>Committee to comprise NEDs, a majority of whom shall be independent</li> <li>The Chairman of the Committee must be a NED</li> <li>The Chairman and Deputy Chairman /Group Finance Director of JKH are present at all Committee meetings unless the Chairman or ED remuneration is under discussion respectively</li> <li>The Deputy Chairman/Group Finance Director is the Secretary of the Committee</li> </ul>
Scope	<ul style="list-style-type: none"> <li>Review and recommend overall remuneration philosophy, strategy, policies and practice and, performance-based pay plans for the John Keells Group</li> <li>Determine and agree with the Board a framework for remuneration of Chairman and EDs based on performance targets, benchmark principles, performance related pay schemes, industry trends and past remuneration</li> <li>Succession planning of Key Management Personnel</li> <li>Determining compensation of NEDs will not be under the scope of this Committee</li> </ul>

The Human Resources and Compensation Committee as of 31<sup>st</sup> March 2020 consists of the following members;

Members	Members
Mr. D A Cabraal – Chairman	<b>By Invitation</b>
Mr. M A Omar	Mr. K N J Balendra
Dr. S S H Wijayasuriya	Mr. J G A Cooray

### 3.2.3 Nominations Committee of the Parent Company – JKH

No of meetings - 2

Composition	<ul style="list-style-type: none"> <li>Majority of the members of the Committee shall be NEDs together with the Chairman.</li> <li>The Chairman of the Committee must be an NED/ID Director</li> <li>The Head of Legal, Secretarial and CSR is the Secretary of the Committee</li> </ul>
Scope	<ul style="list-style-type: none"> <li>Assess skills required on the Board given the needs of the businesses</li> <li>From time to time assess the extent to which the required skills are represented at the Board</li> <li>Prepare a clear description of the role and capabilities required for a particular appointment</li> <li>Identify and recommend suitable candidates for appointments to the Board</li> <li>Ensure, on appointment to Board, NEDs receive a formal letter of appointment specifying clearly expectation in terms of time commitment, involvement outside of the formal Board meetings, participation in Committees, amongst others</li> <li>Ensure that every appointee undergoes an induction to the Group</li> <li>The appointment of Chairperson and EDs is a collective decision of the Board</li> </ul>

Nominations Committee as at 31<sup>st</sup> March 2020 consists of following Members;

Members
Mr. M A Omar – Chairman
Dr. S S H Wijayasuriya
Mr. K N J Balendra
Ms. M P Perera*

*\*Composition of the Nomination Committee was reconstituted at the JKH Board Meeting held on 24<sup>th</sup> May 2019, following which Ms. M P Perera was released from her role in the Nominations Committee. Following the resignation of Dr. R Coomaraswamy, on 31<sup>st</sup> December 2019, Ms. M P Perera was reappointed to the Nominations Committee.*

### 3.2.4 Related Party Transactions Review Committee of the Parent Company – JKH

No of meetings - 4

Composition	<ul style="list-style-type: none"> <li>The Chairman must be a NED</li> <li>May include one ED</li> </ul>
Scope	<ul style="list-style-type: none"> <li>The JKH has broadened the scope of the Committee to include senior decision makers in the list of key management personnel, whose transactions with John Keells Group companies also get reviewed by the Committee, in addition to the requisitions of the CSE</li> <li>Develop, and recommend for adoption by the Board of Directors of JKH and its listed subsidiaries, a Related Party Transaction Policy which is consistent with the operating model and the delegated decision rights of the John Keells Group</li> <li>Update the Board on related party transactions of each of the listed companies of the John Keells Group on a quarterly basis</li> <li>Define and establish the threshold values for each of the subject listed companies in setting a benchmark for related party transactions, related party transactions which have to be pre-approved by the JKH Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies</li> </ul>

# Corporate Governance Commentary

**Related Party Transaction Review Committee as at 31<sup>st</sup> March 2020 consists of following Members;**

Ms. M P Perera – Chairperson

Mr. D A Cabraal

Mr. A N Fonseka

Mr. K N J Balendra\*

*\*Composition of the Related Party Transaction Review Committee was reconstituted at the JKH Board Meeting held on 31<sup>st</sup> March 2020, following which Mr. K N J Balendra was released from his role in the committee. Mr. K N J Balendra will attend meetings, as required, by invitation.*

### 3.2.4.1 Report of the Related Party Transaction Review Committee

The following Directors served as members of the Committee during the financial year:

Ms. M P Perera

Mr. A N Fonseka

Mr. D A Cabraal

Mr. K N J Balendra

The Deputy Chairman/Group Finance Director and Group Financial Controller attended meetings by invitation. The Head of Group Business Process Review served as the Secretary to the Committee.

The objective of the Committee is to exercise oversight on behalf of the Board of JKH and its listed Subsidiaries, to ensure compliance with the Code on Related Party Transactions, as issued by the SEC (“The Code”) and with the Listing Rules of the CSE. The Committee has also adopted best practices as recommended by the CA Sri Lanka.

The Committee in discharging its functions primarily relied on processes that were validated from time to time and periodic reporting by the relevant entities and Key Management Personnel (KMP) with a view to ensuring that:

- there is compliance with “the Code” and Listing Rules of the CSE
- shareholder interests are protected; and
- fairness and transparency are maintained.

The Committee reviewed and pre-approved all proposed non-recurrent Related Party Transactions (RPTs) of the parent, John Keells Holdings PLC, and all its listed subsidiaries, namely: JKH, Tea Smallholder Factories PLC, Asian Hotels and Properties PLC, Trans Asia Hotels PLC, John Keells Hotels PLC, Ceylon Cold Stores PLC, Keells Food Products PLC, and Union Assurance PLC. Further, recurrent RPTs were reviewed annually by the Committee. Other significant transactions of non-listed subsidiaries were presented to the Committee for information.

In addition to the Directors, all Presidents, Executive Vice Presidents, Chief Executive Officers, Chief Financial Officers and Financial Controllers of respective companies/sectors have been designated as KMPs in order to increase transparency and enhance good governance. Annual disclosures from all KMPs setting out any RPTs they were associated with, if any, were obtained and reviewed by the Committee.

The Committee held four meetings during the financial year.

The activities and views of the Committee have been communicated to the Board of Directors, quarterly, through verbal briefings, and by tabling the minutes of the Committee’s meetings.



**Ms. M P Perera**

*Chairperson of the Related Party Transaction Review Committee*

13<sup>th</sup> May 2020

### 3.2.4.2 Related Party Transactions Review Committee meeting attendance

No of meetings - 4

Members	Eligible to Attend	Attended
Ms. M P Perera – Chairperson	4	4
Mr. D A Cabraal	4	3
Mr. A N Fonseka	4	4
Mr. K N J Balendra	4	4
<b>By Invitation</b>		
Mr. J G A Cooray	4	4

### 3.2.5 Project Risk Assessment Committee – JKH

Composition	<ul style="list-style-type: none"> <li>• Should comprise a minimum of four Directors</li> <li>• Must include the Chairman and Deputy Chairman / Group Finance Director</li> <li>• Must include two NEDs</li> <li>• The Chairman must be a NED</li> </ul>
Scope	<ul style="list-style-type: none"> <li>• Review and assess risk associated with large-scale investments and the mitigatory plans thereto, if mitigation is possible and identify risk that cannot be mitigated.</li> <li>• Ensure stakeholder interest are aligned, as applicable, in making this investments decision.</li> <li>• Where appropriate, obtain specialised expertise from external sources to evaluate risks, in consultation with the Deputy Chairman / Group Finance Director</li> <li>• Recommend to the JKH Board, necessary action required, to mitigation risks that are identified in the course of evaluating a project in order to ensure that those risks are captured by the Group Risk Matrix for monitoring and mitigation.</li> </ul> <p>Note that the Committee shall convene only when there is a need to transact in business as per the terms of its mandate.</p>

Project Risk Assessment Committee of the JKH, the Parent Company of CCS, functioning as the Project Risk Assessment Committee of the Company and its Subsidiaries. The committee was appointed on 26<sup>th</sup> July 2018.

The Project Risk Assessment Committee as of 31<sup>st</sup> March 2020 consists of the following members;

Members
Dr. S S H Wijayasuriya – Chairman
Ms. M P Perera
Mr. K N J Balendra
Mr. J G A Cooray

### 3.3 Role of Chairman of the Board

The Chairman is a Non-Executive Non-Independent Director. The Chairman conducts Board Meetings ensuring effective participation of all Directors. The Chairman is responsible for providing leadership to the Board and ensuring that proper order and effective discharge of Board functions are carried out at all times by the Board Members.

#### 3.3.1 Chairman

The Chairman of JKH, the Parent Company, serves as the Chairman of the Company and the CCS Group companies and is responsible for providing leadership to the CCS Group and for performance of the Board, engaging all Directors to actively contribute to matters set before the Board. He sets the tone for the governance and ethical framework of the CCS Group, facilitates and encourages the expression of diverse views and by keeping in touch with local and global industry developments, ensures that the Board is alert to its obligations to the Company's shareholders and other stakeholders.

With the assistance of the Board Secretaries, Keells Consultants (Private) Limited, he also ensures that:

- Board procedures are followed
- Directors receive timely, accurate and clear information
- Updates on matters arising between meetings
- The agenda for the board meeting, reports and papers for discussion are dispatched at least one week in advance so that the directors are able to study the material and arrive at sound decisions
- A proper record of all proceedings of Board meetings is maintained

# Corporate Governance Commentary

The Human Resources and Compensation Committee of the Parent Company appraises the performance of the Chairman on an organizational and individual basis as approved by the Board.

## **3.4 Group Executive Committee and Other Management Committees**

The JKH Group Executive Committee and the other Management Committees met regularly as per a time table communicated to the participants 6 months in advance. In the absence of a compelling reason, attendance at these Committee meetings is mandatory for the Committee members. All the Committees carried out specific tasks entrusted to each component, as expected.

Whilst the Chairman and Presidents are ultimately accountable for the Company/Group and the industry groups/sectors/business functions respectively, all decisions are taken on a committee structure as described below.

### **3.4.1 Group Executive Committee (GEC)**

As at 31<sup>st</sup> March 2020, the 5-member GEC consisted of the Chairman, JKH Group, Deputy Chairman /Finance Director and the Presidents of business/function. The GEC is the overlay structure that implements, under the leadership and direction of the Chairman the strategies and policies determined by the JKH Board, manages through delegation and empowerment, the business and affairs of the John Keells Group makes portfolio decisions and prioritises the allocation of all Forms of Capital.

A key responsibility of the members of the GEC is to act as the enablers of the operating model of the John Keells Group. The members of the GEC are well equipped to execute these tasks and bring in a wealth of experience and diversity to the Group in terms of their expertise and exposure. The GEC meets twice a month, in addition to the meetings that are scheduled as necessitated by the requirements of the John Keells Group.

### **3.4.2 Group Operating Committee (GOC)**

As at 31<sup>st</sup> March 2020, the 22-member GOC consisted of the Chairman, John Keells Group, Deputy Chairman/Finance Director, the Presidents and the Executive Vice Presidents. The GOC provided a forum to share learnings, and identify synergies, across industry groups, sectors, business units and functions. The GOC meets once a month during the year and is instrumental in preserving a common group identity across diverse business units).

### **3.4.3 Sector Management Committee (SMC)**

The SMC's of the Consumer Foods and Retail sectors operate under the leadership of the respective Presidents are dedicated and focused towards implementing strategies and policies determined by the Board and designing, implementing and monitoring the best practices in their respective functions, strategic business units or even at departmental level where appropriate and material.

The underlying intention of forming these Committees is to encourage the respective business units to take responsibility and accountability at the grass-root level via suitably structured Committees and teams by objective setting.

#### **3.4.3.1 Key Objectives of the SMC**

The underlying intention of the SMC is to encourage the respective business units to take responsibility and accountability to the lowest possible level, via suitably structured committees and teams in a management by objectives setting.

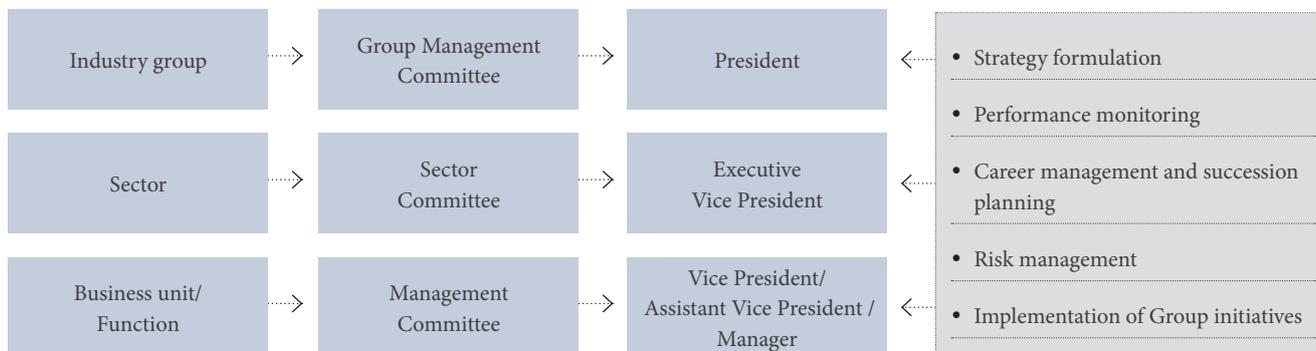
#### **3.4.3.2 Scope of the SMC**

The agenda of the SMC is carefully structured to avoid duplication of effort and ensure that discussions and debate are complementary both in terms of a bottom-up and top-down flow of information and accountability. Responsibility and accountability of the effective functioning of the SMC is vested upon the President and the functional heads as applicable.

The SMC focus is aligned to headline financial and non-financial indicators, strategic priorities, risk management, implement the strategies and policies determined by the Board, the use of IT as a tool of competitive advantage, new business development, continuous process improvements, management of human resource and managing through delegation and empowerment, the business affairs of the respective sectors. Responsibility for monitoring and achieving plans as well as ensuring compliance with Group policies and guidelines rests with the Presidents and functional heads where applicable.

These Committees met regularly and carried out their tasks in keeping with their scope. The Management Committees proved to be key in enhancing employee engagement and empowerment.

Illustrated below is the structure of the three Committees.



### 3.5 Employee Empowerment

The CCS Group ensures that the necessary policies, processes and systems are in place to ensure effective recruitment, development and retention of this vital stakeholder. The bedrock of these policies is the CCS Group’s competency framework. To support these policies, the CCS Group continued with, and further strengthened, the following practices.

- Top management and other senior staff are mandated to involve, as appropriate, all levels of staff in formulating goals, strategies and plans
- Decision rights were defined for each level of employment in order to instill a sense of ownership, reduce bureaucracy and speed-up the decision making process
- A bottom-up approach was taken in the preparation of annual and long-term plans and the CCS Group also ensured employee involvement in strategy, and thereby empowerment
- Organisational and Committee structures are designed to enable, and facilitate, high accessibility of all employees to every level of management
- Open, honest, frank and constructive communication was encouraged at all levels. The CCS Group strongly believes that constructive disagreement is essential for optimal decision making

Moreover, the CCS Group provides a safe, secure and conducive environment for all its employees, allows freedom of association and collective bargaining, prohibits child labour, forced or compulsory labour and any discrimination based on gender, race, religion, gender identity or sexual orientation, and promotes workplaces which are free from physical, verbal or sexual harassment. Additionally, the CCS Group strives to incorporate these practices, where relevant, in the supply chain contracts entered into by the Group.

### 4. Integrated Governance Systems and Procedures

Listed below are the main governance systems and procedures of the CCS Group which are aligned to the John Keells Group Internal Governance Structure. These systems and procedures strengthen the elements of the Internal Governance Structure and are benchmarked against industry best practice.

- i. Strategy formulation and decision making process
- ii. Human resource governance
- iii. Integrated risk management
- iv. IT governance
- v. Stakeholder management and effective communications
- vi. Sustainability governance

# Corporate Governance Commentary

## 4.1 Strategy Formulation and Decision Making Processes

### 4.1.1 Strategy Mapping

Strategy mapping exercises, concentrating on the short, medium and long-term aspirations of each business, are conducted annually and reviewed, at a minimum, quarterly/half-yearly or as and when situations so demands.

This exercise entails the following key aspects, among others.

- Progress and deviation report of the strategies formed in the prior year, and current year
- Competitor analysis and competitive positioning
- Analysis of key risk and opportunities
- Management of stakeholders such as suppliers and customers
- Value enhancement through initiatives centred on the various forms of Capitals under integrated reporting framework

The strategies of the various business units, operating in diverse industries and markets, will always revolve around the CCS Group

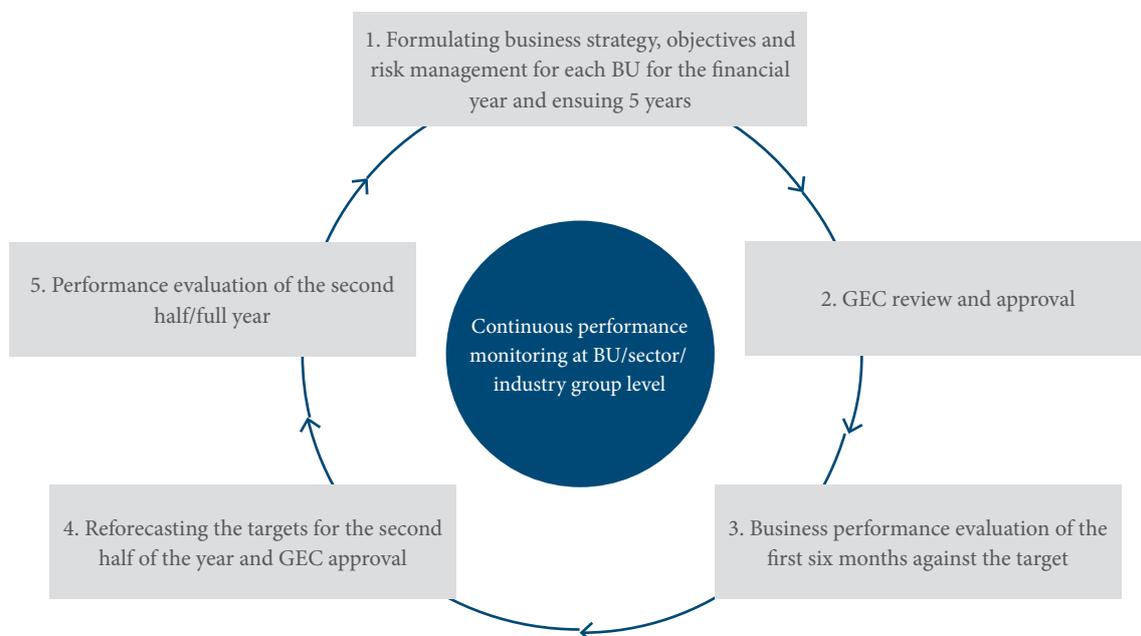
strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

The CCS Group's investment appraisal methodology and decision making process ensures the involvement of all key stakeholders that are relevant to the evaluation of the decision.

In this manner:

- Several views, opinions and advice are obtained prior to making an investment decision
- A holistic view is taken on the commercial viability and potential of any project, including operational, financial, funding, legal, risk, sustainability and tax implications
- All investment decisions are consensual in nature, made through the afore-discussed management committee structure where no single individual has unfettered decision making powers over investment decisions
- The ultimate responsibility and accountability for the investment decision rests with the Chairman

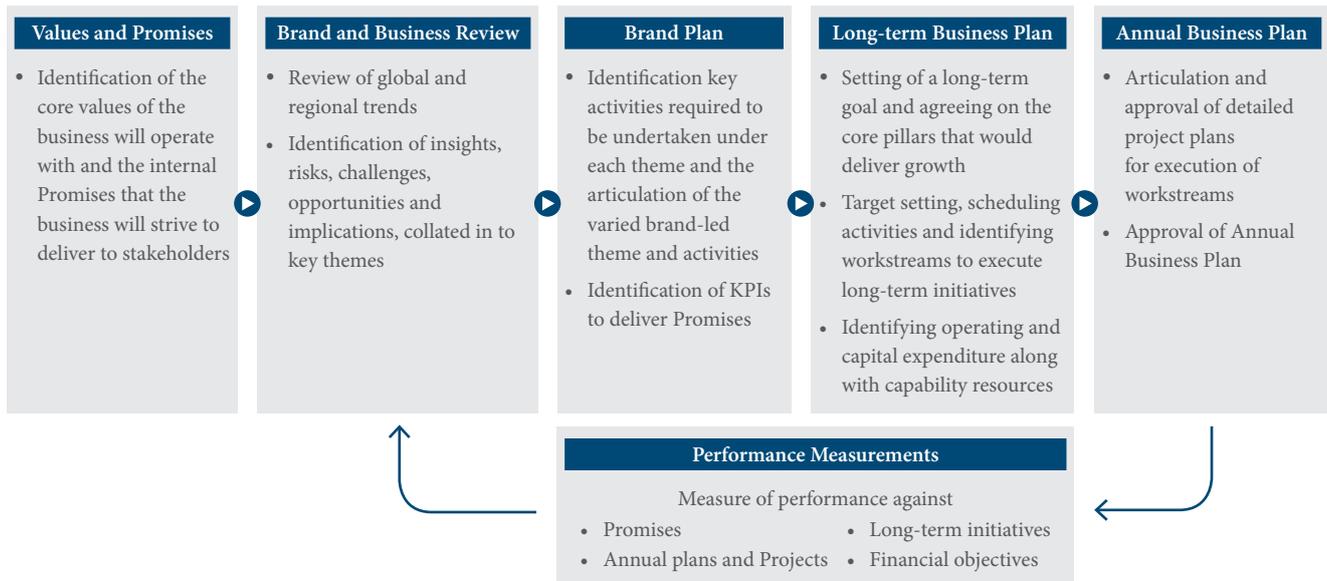
The following section further elaborates on the JKH Group's project appraisal and execution process.



### 4.1.2. Medium-term Strategy

During the year under review, each business unit continued to monitor the five-year strategy and business plan, formulating deviation strategies and presented rolling five-year strategies which were approved by the GEC.

The ensuing section illustrates the comprehensive process followed by each business in developing the business's strategy for the medium term.



### 4.1.3. Project Approval Process

Projects undertaken follow a detailed feasibility report covering key business considerations under multiple scenarios, within a framework of sustainability. The feasibility stage is not restricted to a financial feasibility, but encompasses a wider scope of work covering risk management, sustainable development and HR considerations.

Based on the decision rights matrix, subsequent to review by the relevant leadership committee of the feasibility report and post in principle approval, a multi-disciplined project team will proceed to the next phase of the project evaluation which will focus on detailed operational, commercial, financial and legal due diligence. Discussions will also commence with regulatory and licensing authorities, financial institutions and possible partners worker representatives, as relevant and deemed necessary.

Social and environmental impacts will also be considered. Where the transaction involves the transfer or lease of land, title searches would be conducted for both private and State land. In case of State land, every action would be taken to ensure compliance with the relevant rules and regulations. As appropriate, written authority and approvals will be obtained. Where the project is a part of privatization mechanism, the entire process will be conducted in line with the directives of the relevant administrative authority as communicated through expressions of interests, request for proposals, pre-bid meetings and official approvals and correspondence.

Subsequent to the project satisfying the above highlighted criteria, the final approval to proceed will be granted by the Board. When appropriate, the GEC is empowered to approve such proposals in terms of the delegated decision rights with the Board being kept informed.

The aforementioned project appraisal framework flow is illustrated below:



# Corporate Governance Commentary

## 4.2 Human Resource Governance

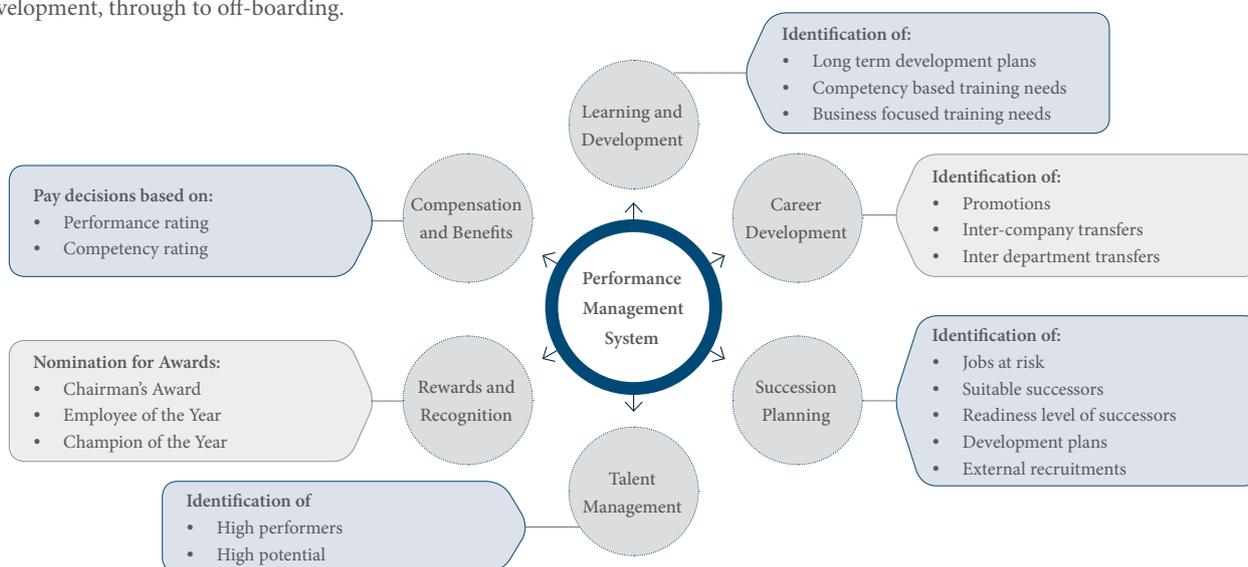
The Group human resource governance framework is designed in a manner that enables high accessibility by any employee to every level of management. Constant dialogue and facilitation are also maintained ranging from work related issues to matters pertaining to general interest that could affect employees and their families. The Group follows an open-door policy for its employees and this is promoted at all levels of the Group.

The state-of-the-art cloud based Human Resource Information System (HRIS) implemented in March 2019, manages the entire life-cycle of the employee from onboarding to performance management, succession planning, compensation, learning and development, through to off-boarding.

### 4.2.1 Performance Management

The Performance Management System, as illustrated below, is at the heart of many supporting human resource management processes such as learning and development, career development, succession planning, talent management, rewards/recognition and compensation/benefits.

Whilst the employees are appraised for their performance, equal emphasis is placed on how well they embody Group Values, namely; Caring, Trust, Integrity, Excellence and Innovation.



### 4.2.2 Performance Based Compensation Philosophy

The John Keells Group Compensation Policy is as follows:

<p><b>Performance Management</b></p> <p><b>Pay for performance</b> Greater prominence is given to the incentive component of the total target compensation.</p>	<p><b>Satisfaction</b></p> <p><b>More than just a workplace</b> Continuously focuses on creating a sound work environment covering all aspects of employee satisfaction.</p>
<p><b>Compensation Policy</b></p> <ul style="list-style-type: none"> <li>• Compensation comprises of fixed (base) payments, short-term incentives and long-term incentives</li> <li>• Higher the authority levels within the Group, higher the incentive component as a percentage of total pay</li> <li>• Greater the decision influencing capability of a role, higher the weight given to organisational performance as opposed to individual performance</li> <li>• Long-term incentives are in the form of Employee Share Options</li> </ul>	
<p><b>Internal Equity</b></p> <ul style="list-style-type: none"> <li>• Remuneration policy is built upon the premise of ensuring equal pay for equal roles</li> <li>• Manager and above level roles are banded using the Mercer methodology for job evaluation, on the basis of the relative worth of jobs</li> </ul>	<p><b>External Equity</b></p> <ul style="list-style-type: none"> <li>• Fixed compensation is set at competitive levels using the median, 65th percentile and 75th percentile of the best comparator set of companies (from Sri Lanka and the region, as relevant) as a guide.</li> <li>• Regular surveys are done to ensure that employees are not under / over compensated</li> </ul>

#### 4.2.2.1 Equity Sharing

ESOPs are offered at defined career levels based on pre-determined criteria which are uniformly applied across the eligible levels and performance levels. These long-term incentives have been very instrumental in inculcating a deep sense of ownership in the recipients. Share options are awarded to individuals on the basis of their immediate performance and potential importance of their contribution to the Group's future plans.

#### 4.3 Integrated Risk Management

CCS Group-wide risk management programme focuses on wider sustainability development, to identify, evaluate and manage significant Group risks and to stress test various risk scenarios. The programme ensures that a multitude of risks, arising as a result of the Group's diverse operations, are effectively managed in creating and preserving stakeholder wealth. The Group manages its enterprise risk, audit, and incident management processes through an automated risk management platform that enables the maintenance of live, dynamic and virtual risk registers which are linked to business goals and responsible personnel. Features such as the provision of timely alerts on action plans and escalation processes for risks, where action plans are over-due ensure maintenance of live risk grids.

Continuous steps taken towards promoting the Group's integrated risk management process are:

- Integrating and aligning activities and processes related to planning, policies/procedures, culture, competency, internal audit, financial management, monitoring and reporting with risk management.
- Supporting executives/managers in moving the organisation forward in a cohesive integrated and aligned manner to improve performance, while operating effectively, efficiently, ethically and legally within the established limits for risk taking. The risk management programmes have allowed greater visibility and understanding of risk appetites. Enabled by the automated risk management platform, key management personnel have virtual visibility of the risks, as relevant, while the Board has visibility of all Group risks

The Board, GEC and Group Risk Management Committees, oversee risk management across the Group to ensure that risks are brought within tolerance, managed and/or mitigated.

Please refer the Enterprise Risk Management for a detailed discussion on the Group's Integrated Risk Management process and the key risks identified in achieving the Group's strategic business objectives.

#### 4.4 Information Technology (IT) Governance

IT governance stewardship roles are governed through layered and nested committees, cascading from the GEC to the Group IT Management Committee to the Group IT Operation Committee with well-defined roles and responsibilities at a Group, sector and business unit level.

The IT governance framework used within the Group leverages best practices and industry leading models such as CoBIT (Control Objectives for Information and Related Technology), ISO 35800, ISO 27001, ISO 9000:2008, COSO (Committee of Sponsoring Organisations of the Tread way Commission)/BCP (Business Continuity Planning), ITIL (Information Technology Infrastructure Library), in providing a best of breed framework. The Group periodically tests its business resilience against the centrally hosted/facilitated IT services which provides an opportunity to identify limitations and areas for further improvement in the IT infrastructure.

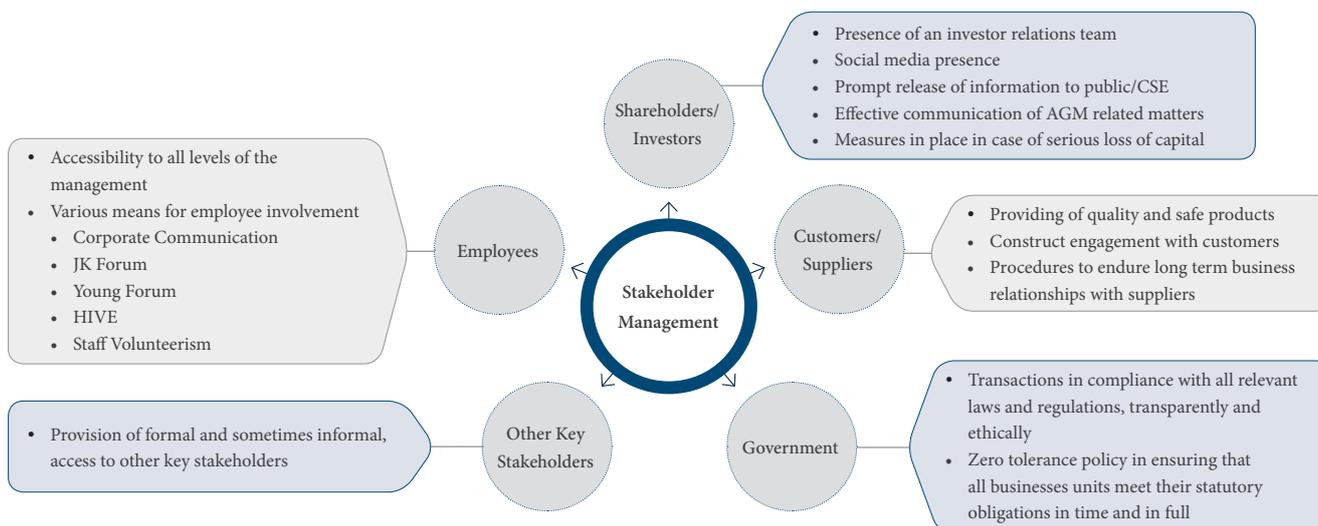
During the year under review, the Group completed the implementation of a rigorous data classification and rights management system across all its business units. This system is designed to improve data stewardship and management of access to data within the Group, whilst ensuring that all material elements pertaining to the businesses are appropriately classified, documented and stored. Other initiatives also included the implementation of two-factor authentication for employee accounts as an extra layer of security.

The Managed Security Operations Centre (SOC) implemented in FY2017-18, continues to perform as per expectations, strengthening the Group's IT infrastructure against vulnerabilities, thereby preventing, detecting, analysing, and responding to cyber security incidents.

# Corporate Governance Commentary

## 4.5 Stakeholder Management and Effective Communication

Following are the key stakeholder management methodologies adopted by the Group. Please refer the Materiality and Stakeholder Relationship section of the Annual Report for a detailed discussion.



### 4.5.1 Communication with Shareholders

The primary modes of communication between the Group and the Shareholders are through the announcements made to the CSE, Annual Reports, Quarterly Reports and the Annual General Meeting.

#### 4.5.1.1 Investor Relations

The Investor Relations team of the John Keells Group is responsible for maintaining an active dialogue with shareholders, potential investors, investment banks, analysts and other interested parties in ensuring effective investor communication.

The Investor Relations team has regular discussions with Shareholders, as and when applicable, to share highlights of the Group's performance as well as to obtain constructive feedback.

Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or management of the Group by contacting the Investor Relations team, Secretaries, the Senior Independent Director or the Chairman. Further, individual Shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions at all times.

#### 4.5.1.2 Release of Information to the Public and CSE

The Board of Directors, in conjunction with the Audit Committee where applicable, is responsible in ensuring the accuracy and timeliness of published information and in presenting an honest and

balanced assessment of results in the quarterly and annual financial statements. Accordingly, Group has reported a true and fair view of its financial position and performance for the year ended 31<sup>st</sup> March 2020 and at the end of each quarter of the financial year 2019/20.

All other material and price sensitive information about the Group is promptly communicated to the CSE and such information is also released to employees, the press and shareholders. Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or Management of Group. Such questions, requests and comments should be addressed to the Company Secretary.

The Group focuses on open communication and fair disclosure, with emphasis on the integrity, timeliness and relevance of the information provided. The Group ensures that information is communicated accurately and in a manner that will avoid the creation or continuation of a false market.

#### 4.5.1.3 Annual General Meeting

Information is provided to the shareholders prior to the Annual General Meeting (AGM) to give them an opportunity to exercise the prerogative to raise any issues relating to the businesses of the CCS Group. Shareholders are provided with the Annual Report of CCS Group in electronic form. Shareholders may at any time elect to receive an Annual Report in printed form, which is provided free of charge.

The CCS Group makes use of the AGM constructively towards enhancing relationships with the Shareholders and towards this end the following procedures are followed:

- Notice of the AGM and related documents are sent to the Shareholders along with the Annual Report within the specified time
- Summary of procedures governing voting at the AGM are clearly communicated
- All Executive and Non-Executive Directors are made available to answer queries
- The Chairman ensures that the relevant senior managers are also available at the AGM to answer specific queries
- Separate resolutions are proposed for each item
- Proxy votes, those for, against, and abstained (withheld) are counted

#### 4.5.1.4 Serious Loss of Capital

In the unlikely event that the net assets of the Company fall below half of its stated capital, shareholders will be notified and the requisite resolutions would be passed on the proposed way forward.

#### 4.6 Sustainability Governance

The CCS Group places great importance on sustainable development. The Group believes that its financial performance and brand image are closely aligned with sound management of environmental, social and governance (ESG) factors. The Group's approach to sustainability continues to be aligned to support the Sustainable Development Goals adopted by the United Nations in 2015, which expands on the Millennium Development Goals. The Group is also voluntarily compliant with three global ESG reporting frameworks.



#### 5. Assurance Mechanisms

The Assurance Mechanisms comprise of the various supervisory, monitoring and benchmarking elements of the Group Corporate Governance System which are used to measure “actuals” against “plan” with a view to highlighting deviations, signalling the need for quick corrective action, and quick redress when necessary. These mechanisms also act as “safety nets” and internal checks in the Governance system.

#### 5.1 The Code of Conduct

##### JKH Group Code of Conduct

- Allegiance to the Company and the Group
- Compliance with rules and regulations applying in the territories that the Group operates in
- Conducting all business in an ethical manner at all times in keeping with acceptable businesses practices
- Exercise of professionalism and integrity in all business and “public” personal transactions

The objectives of the Code of Conduct are strongly affirmed by a strong set of Values which are well institutionalised at all levels within the Group through structured communication. The degree of employee conformance with Values and their degree of adherence to the CCS Group Code of Conduct are key elements of the reward and recognition schemes.

The Group Values continue to be consistently referred to by the Chairman, Presidents and Business Unit Heads during employee and other key stakeholder engagements, in order to instill these values in the hearts and DNA of the employee.

#### 5.2 Independent Directors

Independent Directors represent more than one third of the Non-Executive Directors in the Board to preserve the corporate governance as stake holders need an independent party to voice their concerns on a confidential note.

#### 5.3 Board Sub-Committees

The JKH Board Sub-Committees play an important supervisory and monitoring role by focusing on the designated areas of responsibility passed to it by the Board. For more information on the Board Sub-Committees section refer section 3.2 of this Commentary.

# Corporate Governance Commentary

## 5.4 Employee Participation in Assurance

The CCS Group is continuously working towards introducing innovative and effective ways of employee communication and employee awareness. The importance of communication – top-down, bottom-up, and lateral-in gaining employee commitment to organisational goals has been conveyed extensively through various communications issued by the President and the management. Whilst employees have many opportunities to interact with senior management, the Group has created the ensuing formal channels for such communication through feedback.

- Skip level meetings
- Exit interviews
- Young Forum meetings
- 360 degree evaluation
- Employee surveys
- Monthly staff meetings
- Ombudsperson
- Continuous reiteration and the practice of the “Open-Door” policy

Additionally, the Group continued with its whistle-blower policy and securities trading policy. The Group has witnessed an increased level of communication flow from employees. Such communication and feedback received from the employees by the management are recorded, irrespective of the level of anonymity, and subsequently discussed and followed up. The respective outcomes are duly recorded.

## 5.5 Internal Controls

The Board has taken necessary steps to ensure the integrity of the Group’s accounting and financial reporting systems and that internal control systems remain robust and effective via the review and monitoring of such systems on a periodic basis.

### 5.5.1 Internal Compliance

A quarterly self-certification programme requires the President and Chief Financial Officer of the CCS Group to confirm compliance with statutory and other regulatory procedures, and also identify any significant deviations from the expected norms.

### 5.5.2 System of Internal Control

The Board has, through the involvement of the Group Business Process Review function, taken steps to obtain assurance that systems, designed to safeguard the Group’s assets, and provide management information are functioning according to expectations and proper accounting records are in place.

This also entails automated monitoring and workflow based escalation in order to facilitate timely clearing of all transactional entries including complete reconciliation, unreconciled and open entries being flagged and periodically scrutinised, and formal disclosure being made to the relevant Audit Committees, efficient management and tracking of cash and cheques deposits, in line with international best practice and continual streamlining and optimisation of the Internal Audit function, via identification of focus areas, improvement opportunities and feedback reporting in order to reinforce governance and assurance.

### Initiatives to Strengthen Internal Controls

- Institutionalised an integrated fraud deterrent and investigation framework to drive and deliver continuous improvements of assurance related initiatives. The framework provides an integrated platform for handling all aspects of fraud and stakeholder assurance; reinforces uniformity across common processes in matters relating to fraud; employs a data driven approach to the continuous assessment of control efficacy and assesses and deploys appropriate preventive and detective controls against frauds.
- Implementation of a digital system for quarterly financial and operational information management in order to facilitate data capturing for compliance reporting, provide a sustainable and structured mechanism to enable top-down and bottom-up stakeholder engagement, and track the progression of how the compliance posture at entity level has evolved, among others.
- The Forestpin “Internal Audit Scoping” was also introduced, whereby the tool was used to identify areas for process optimisation, strengthening controls and in feedback reporting to reinforce governance (management) and assurance structures.

The risk review programme covering the internal audit of the whole Group is outsourced. Reports arising out of such audits are, in the first instance, considered and discussed at the business/functional unit levels and after review by the President of the industry group are forwarded to the relevant Audit Committee on a regular basis. Further, the Audit Committees also assess the effectiveness of the risk review process and systems of internal control on a regular basis.

### 5.5.3 Segregation of Duties (SoD) under Sarbanes-Oxley (SOX) Guidelines

The CCS Group is very aware of the need to ensure that no individual has excessive system access to execute transactions across an entire business process or business processes which have critical approval linkages, in the context that increasing use of information technology and integrated financial controls creates unintended exposures within the Group. SoD dictates that problems such as fraud, material misstatements and manipulation

of financial statements have the potential to arise when the same individual is able to execute two or more conflicting, sensitive transactions. Separating disparate jobs into task-oriented roles can often result in inefficiencies and costs which do not meet the cost versus benefit criteria. Whilst the attainment of a zero SoD conflict state is utopian, the Group continues to take steps, to identify and evaluate existing conflicts and reduce residual risks to an acceptable level under a cost versus benefit rationale.

#### 5.5.4 Internal Audit

The Group internal audit process is conducted by outsourced parties at regular intervals, coordinated by the Group Business Process Review function (GBPR) of the John Keells Group. GBPR ensures that the internal audit plan adequately covers the significant risks of the Group, reviews the important internal audit findings and follow-up procedures.

Whilst there are merits and demerits associated with outsourcing an internal audit, the Group is of the view that having an external based auditor is more advantageous.

#### 5.5.5 Data Analytics

Traditionally, internal auditing followed an approach which was based on a cyclical process that involves manually identifying control objectives, assessing and testing controls, performing tests, and sampling only a relatively small population of the dataset to measure control effectiveness and operational performance. Today, the Group operates in a complex and dynamic business environment where the number of transactions has increased exponentially over the years and the traditional cyclical/sample based internal auditing techniques are becoming less effective. As such, the Group continues to use “big data analysis” techniques on the total data using Standard Deviations and Z-Scores in establishing real time, user-friendly “outlier identification” and “early warning triggers”.

### 5.6 Ombudsperson

An Ombudsperson is available to report any complaints from employees of alleged violations of the published Code of Conduct if the complainant feels that the alleged violation has not been addressed satisfactorily by the internally available mechanisms.

The findings and the recommendations of the Ombudsperson, subsequent to an independent inquiry, is confidentially communicated to the Chairman upon which the involvement duty of the Ombudsperson ceases.

On matters referred to him by the Ombudsperson, the Chairman or the Senior Independent Director of JKH, as the case maybe, will place before the Board:

- i. the decision and the recommendations;
- ii. action taken based on the recommendations;
- iii. where the Chairman or the Senior Independent Director disagrees with any or all of the findings and or there commendations thereon, the areas of disagreement and the reasons therefore.

In situation (iii) the Board is required to consider the areas of disagreement and decide on the way forward. The Chairman expected to take such steps as are necessary to ensure that the complainant is not victimised, in any manner, for having invoked this process.

### Report of the Ombudsperson

#### Mandate and Role

For purposes of easy reference, I set out below the Ombudsperson’s mandate and role:

- (a) legal and ethical violations of the Code of Conduct for employees, but in an appellate capacity, when a satisfactory outcome using existing procedures and processes has not resulted or when the matter has been inadequately dealt with;
- (b) violations referred to above by individuals at the Executive Vice President, President and Executive Director levels, including that of the Chairman, in which case the complainant has the option of either complaining to the Ombudsperson in the first instance, or first exhausting the internal remedies;
- (c) sexual harassment, in which event the complainant has the option of either complaining to the Ombudsperson in the first instance or first exhausting the internal remedies.

The mandate excludes disciplinary issues from the Ombudsperson’s responsibilities. The right to take disciplinary action is vested exclusively in the Chairman and those to whom this authority has been delegated.

No issues were raised by any member of the companies covered during the year under review.

Ombudsperson  
13<sup>th</sup> May 2020

### 5.7 External Audit

Messrs. Ernst & Young is the External Auditor of the Company as well as of the Subsidiaries. They also audit the consolidated financial statements of the Group. The audit fees paid by CCS and the Group to its auditors are separately classified in the Notes to the Financial Statements of the Annual Report.

# Corporate Governance Commentary

In addition to the normal audit services, Messrs. Ernst and Young and the other External Auditors, also provided certain non-audit services to the Group. However, the lead/ consolidating auditor would not engage in any services which are in the restricted category as defined by the CSE for External Auditors. All such services have been provided with the full knowledge of the Audit Committee and are assessed to ensure that there is no compromise of External Auditor independence.

The Board has agreed that, such non-audit services should not exceed the value of the total audit fees charged by the subject auditor within the relevant geographic territory. The External Auditors also provide a certificate of independence on an annual basis.

The Audit and non-audit fees paid by the Group and Company to its Auditors are separately classified in the notes to the financial statements of the Annual Report.

## 6. Regulatory and Accounting Benchmarks

The Board, through the John Keells Group Legal division, the Group Finance division and its other operating structures, strived to ensure that the Company and all its subsidiaries and associates complied with the laws and regulations of the countries they operated in.

The Board of Directors also took all reasonable steps in ensuring that all financial statements were prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the CSE and other applicable authorities. Information contained in the financial statements of the Annual Report is supplemented by a detailed Management Discussion and Analysis which explains to shareholders, the strategic, operational, investment, sustainability and risk related aspects of the Group, and the means by which value is created and how it is translated into the reported financial performance and is likely to influence future results.

CCS Group is fully compliant with all the mandatory rules and regulations stipulated by the:

- Corporate Governance Listing Rules published by the CSE; and
- Companies Act No. 07 of 2007

The Group has also given due consideration to the Best Practice on Corporate Governance Reporting guidelines jointly issued by CA Sri Lanka and the SEC and have in all instances, barring a few, embraced such practices, voluntarily, particularly if such practices have been identified as relevant and value adding. In the very few instances where the Group has not adopted such best practice, the rationale for such non-adoption is articulated.

## 7. Compliance Summary

Towards the continuous stride in achieving a more cohesive and efficient approach to corporate reporting, and in order to keep the report relevant and concise, the ensuing sections reflect a high-level summary of Group's conformance with standards and governance codes.

## 7.1 Statement of Compliance under Section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) on Annual Report Disclosure

### Mandatory Provisions - Fully Compliant

Rule		Compliance Status	Reference in Annual Report
(i)	Names of persons who were Directors of the Entity	Yes	Board of Directors
(ii)	Principal activities of the entity and its subsidiaries during the year, and any changes therein	Yes	Management Discussion and Analysis, Annual Report of Board of Directors and Financial Statements
(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Yes	Your share in detail
(iv)	The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement	Yes	Your share in detail
(v)	A statement of each Director's holding in shares of the Entity at the beginning and end of each financial year	Yes	Annual Report Board of Directors
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Yes	Enterprise Risk Management Report
(vii)	Details of material issues pertaining to employees and industrial relations of the Entity	N/A	During the year 2019/20, there were no material issues pertaining to employees and industrial relations of the CCS Group
(viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Yes	Group Real Estate Portfolio
(ix)	Number of shares representing the Entity's stated capital	Yes	
(x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Yes	Your share in detail
(xi)	Financial ratios and market price information	Yes	Your share in detail and Key Figures and Ratios
(xii)	Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Yes	Notes to the Financial Statements
(xiii)	Details of funds raised through a public issue, right issue and a private placement during the year	N/A	
(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	Yes	Share Information and Notes to the Financial Statements
(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Yes	
(xvi)	Related Party transactions exceeding 10 per cent of the equity or 5 per cent of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Yes	Corporate Governance Commentary

# Corporate Governance Commentary

## 7.2 Statement of Compliance under Section 7.10 of the Listing Rules of the CSE on Corporate Governance

### Mandatory Provisions - Fully Compliant

CSE Rule		Compliance Status	Reference in Annual Report
<b>7.10 Compliance</b>			
a./b./c.	Compliance with Corporate Governance Rules	Yes	CCS Group is in compliance with the Corporate Governance Rules and any deviations are explained where applicable.
<b>7.10.1 Non-Executive Directors (NED)</b>			
a./b./c.	At least 2 members or 1/3 of the Board, whichever is higher should be NEDs	Yes	5 out of 6 Board members are NEDs. The CCS Group is conscious of the need to maintain an appropriate mix of skills and experience in the Board and to refresh progressively its composition over time.
<b>7.10.2 Independent Directors</b>			
a.	2 or 1/3 of NEDs, whichever is higher shall be "independent"	Yes	3 out of the 5 NEDs are independent
b.	Each NED to submit a signed and dated declaration of his/her independence or non-independence	Yes	Independence of the Directors has been determined in accordance with CSE Listing Rules and the 3 Independent NEDs have submitted signed confirmation of their independence.
<b>7.10.3 Disclosures relating to Directors</b>			
a./b.	Board shall annually determine the independence or otherwise of NEDs	Yes	Each NED discloses a formal declaration to the Board of all their interests on an annual basis
c.	A brief resume of each Director should be included in the annual report including the Directors' experience	Yes	Board of Directors section of the Annual Report
d.	Provide a resume of new Directors appointed to the Board along with details to CSE	Yes	Board of Directors section of the Annual Report, no new Directors appointed during the financial year 2019/20
<b>7.10.4 Criteria for defining independence</b>			
a. to h.	Requirements for meeting the criteria to be an Independent Director	Yes	Corporate Governance Commentary Section - Managing Conflicts of Interests and Ensuring Independence
<b>7.10.5 Remuneration Committee</b>			
a.1	Remuneration Committee shall comprise of NEDs, a majority of whom will be independent	Yes	The Human Resources and Compensation Committee of the Parent Company only comprises of Independent NEDs.
a.2	One NED shall be appointed as Chairman of the Committee by the Board of Directors	Yes	The Senior Independent NED is the Chairman of the Committee.
b.	Remuneration Committee shall recommend the remuneration of the Executive Directors	Yes	The remuneration of the Executive Director is determined as per the remuneration principles of the JKH Group, and as recommended by the Human Resources and Compensation Committee.
c.1	Names of Remuneration Committee members	Yes	Corporate Governance Commentary – The Human Resources and Compensation Committee
c.2	Statement of Remuneration policy	Yes	Corporate Governance Commentary – The Human Resources and Compensation Committee
c.3	Aggregate remuneration paid to EDs and NEDs should be included in the Annual Report	Yes	Annual Report of Board of Directors and Financial Statements

## 7.2 Statement of Compliance under Section 7.10 of the Listing Rules of the CSE on Corporate Governance (Contd.)

### Mandatory Provisions - Fully Compliant

CSE Rule		Compliance Status	Reference in Annual Report
<b>7.10.6 Audit Committee</b>			
a.1	Audit Committee (AC) shall comprise NEDs, a majority of whom should be independent	Yes	The Audit Committee comprises only of Independent NEDs.
a.2	A NED shall be the Chairman of the committee	Yes	Chairman of the Audit Committee is an Independent NED.
a.3	Sector President and Sector Chief Financial Officer should attend AC meetings	Yes	The President and Chief Financial Officer, are permanent invitees to all Audit Committee meetings.
a.4	The Chairman of the AC or one member should be a member of a recognised professional accounting body	Yes	The Chairperson of the Audit Committee is a member of a recognised professional accounting body.
b.	The Functions of the Audit Committee as set in the CSE Listing Rules 7.10.6		
b.1	Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with SLFRS/LKAS	Yes	The Audit Committee Report
b.2	Overseeing the compliance with financial reporting requirements, information requirements of the Companies Act and other related regulations and requirements	Yes	The Audit Committee Report
b.3	Overseeing the process to ensure that the internal and risk management controls, are adequate, to meet the requirements of the SLFRS/LKAS	Yes	The Audit Committee Report
b.4	Assessment of the independence and performance of the External Auditors	Yes	The Audit Committee Report
b.5	Make recommendations to the Board pertaining to External Auditors' appointment, re-appointment, removals and remuneration	Yes	The Audit Committee Report
c.1	Names of the Audit Committee members	Yes	The Audit Committee Report
c.2	Audit Committee shall make a determination of the independence of the external auditors	Yes	The Audit Committee Report
c.3	Report on the manner in which Audit Committee carried out its functions shall be disclosed in the Annual Report.	Yes	The Audit Committee Report

# Corporate Governance Commentary

## 7.3 Statement of Compliance under Section 9.3.2 of the Listing Rules of the CSE on Corporate Governance

### Mandatory Provisions - Fully Compliant

CSE Rule		Compliance Status	Reference in Annual Report
(a)	Details pertaining to Non-Recurrent Related Party Transactions (RPT)	Yes	Annual Report of the Board of Directors and Notes to the Financial Statements
(b)	Details pertaining to Recurrent Related Party Transactions	Yes	Annual Report of the Board of Directors and Notes to the Financial Statements
(c)	Report of the Related Party Transactions Review Committee	Yes	Corporate Governance Commentary, Report of the Related Party Transactions Review Committee
(d)	Declaration by the Board of Directors, in the Annual Report, as an affirmative statement of compliance with the rules pertaining to RPT, or a negative statement otherwise	Yes	Annual Report of the Board of Directors

## 7.4 Statement of Compliance pertaining to Companies Act No. 07 of 2007

### Mandatory Provisions - Fully Compliant

CSE Rule		Compliance Status	Reference in Annual Report
168 (1) (a)	The nature of the business together with any change thereof during the accounting period	Yes	Notes to the Financial Statements
168 (1) (b)	Signed Financial Statements of the Group and the Company	Yes	Notes to the Financial Statements
168 (1) (c)	Auditors' Report on Financial Statements	Yes	Independent Auditors' Report
168 (1) (d)	Accounting policies and any changes therein	Yes	Notes to the Financial Statements
168 (1) (e)	Particulars of the entries made in the Interests Register	Yes	Annual Report of Board of Directors
168 (1) (f)	Remuneration and other benefits paid to Directors of the Group	Yes	Notes to the Financial Statements
168 (1) (g)	Corporate donations made by the Group	Yes	Notes to the Financial Statements
168 (1) (h)	Information on the Directorate of the Company and its Subsidiaries during and at the end of the accounting period	Yes	Annual Report of Board of Directors
168 (1) (i)	Amounts paid/payable to the External Auditor as audit fees and fees for other services rendered	Yes	Notes to the Financial Statements
168 (1) (j)	Auditors' relationship or any interest with the Company and its Subsidiaries	Yes	The Audit Committee Report
168 (1) (k)	Acknowledgement of the contents of this Re-port and signatures on behalf of the Board	Yes	Annual Report of Board of Directors

## 7.5 Code of Best Practice of Corporate Governance 2013 Issued Jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

### Voluntary Provisions - Fully Compliant

#### Directors

- The Group is directed, controlled and lead by an effective Board that possess the skills, experience and knowledge and thus all Directors bring independent judgement on various subjects, particularly financial acumen.
- Whilst there is a transparent procedure for Board Appointments, election and re-election, subject to shareholder approval, takes place at regular intervals.

#### Directors' Remuneration

- The Human Resource and Compensation Committee, consisting of exclusively NEDs of John Keells Group is responsible for determining the remuneration of President/ED.
- ED compensation includes performance related elements in the pay structure. Compensation commitments in the event of early termination, determination of NED remuneration, remuneration policy and aggregate remuneration paid is disclosed under Section 3.1.12 and is in line with the Code.

#### Relationship with Shareholders

- There is constructive use of the AGM, as per Code. Notice of Meeting, with adequate details, is circulated to shareholders as per statute.
- The Group has in place multiple channels to reach shareholders as discussed under Section 4.6.1.

#### Accountability and Audit

- Interim and other price sensitive and statutorily mandated reports are disclosed to Regulators. As evident from the Annual Report of the Board of Directors, the Group carried out all business in accordance with regulations and applicable laws, equitably and fairly.
- The Group continues to be a going concern and remedial action for any material events is in place. All related party transactions are reported under the Notes to the Financial Statements.
- There is an annual review of effectiveness of Internal Control which ensures the maintenance of a sound system of internal control.
- The Internal Audit function and the Audit Committee, functions as stipulated by the Code.

#### Institutional Investors

- The Group conducts regular and structured dialogue with shareholders based on a mutual understanding of objectives. This is done via the Investor Relations team and through the AGM.

#### Other Investors

- Individual shareholders investing directly in shares of the Group are encouraged to carry out adequate analysis and seek independent advice in all investing and/or divesting decisions. They are encouraged to participate at the AGM and exercise their voting rights and seek clarity, whenever required.

#### Sustainability Reporting

- The Group places emphasis on sustainable development and value creation. The Group's Sustainability Management Framework includes strategies for entrenchment of sustainability through awareness creation, monitoring and sustainability assurance.

## 7.6 Code of Best Practice of Corporate Governance (2017) CA Sri Lanka

The Company is compliant with almost the full 2017 Code of Best Practices on Corporate Governance issued by CA Sri Lanka to the extent of business exigency and as required by the CCS Group.