

CORPORATE GOVERNANCE COMMENTARY



JOHN KEELLS HOLDINGS PLC
2019/20

CORPORATE GOVERNANCE COMMENTARY

The Group's well-structured Corporate Governance Framework, built on the core principles of accountability, participation and transparency, has been the cornerstone of the Group's steady advancement over the recent past and the past 150 years.

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. The Group's framework 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 practice, 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 JKH Corporate Governance System.
- The monitoring mechanism in place to ensure strict compliance to the Group's Governance policy.
- The outlook and emerging challenges for corporate governance.
- JKH's compliance with all mandatory requirements of law and its voluntary adoption of recommended codes in the governance field.

"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."

Compliance Summary

Regulatory Benchmarks

Standard/Principle/Code	Adherence
The Companies Act No.7 of 2007 and regulations	
Listing Rules of the Colombo Stock Exchange (CSE)	
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, including directives and circulars	Mandatory provisions - fully compliant
Code of Best Practice on Related Party Transactions (2013) advocated by the Securities and Exchange Commission of Sri Lanka (SEC)	
Code of Best Practice on Corporate Governance (2013) jointly advocated by the SEC and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)	Voluntary provisions - fully compliant
UK Corporate Governance Code (formerly known as the Combined Code of 2010)	Voluntary provisions - fully compliant, as applicable to JKH
Code of Best Practice 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 John Keells Group

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 Group
- Disciplinary procedure
- Policy on grievance handling
- Policies on anti-fraud, anti-corruption and anti-money laundering and countering the financing of terrorism
- Policy on communications and ethical advertising
- Ombudsperson policy
- Group accounting procedures and policies
- Policies on enterprise risk management
- Policies on fund management and FX risk mitigation
- IT policies and procedures, including data protection, classification and security
- Group environmental and economic policies
- Policies on energy, emissions, water and waste management
- Policies on products and services

Note: The above highlights some of the key policies within the Group.

Key Governance Highlights

- At the outset of the COVID-19 pandemic, the Group focused on assessing its cash and liquidity position given the volatile and uncertain environment. A special Board Meeting was held on 31 March 2020 to evaluate the impacts of the COVID-19 pandemic on the businesses based on scenarios, and to discuss initiatives and strategies going forward. In order to evaluate the financial position of each business, particularly over the next 12 months, each of the businesses were stress-tested under multiple operating scenarios, and, subsequently at a Group consolidated level, to ascertain the impact on the ability to sustain its operations with its cash reserves and banking facilities in place. Whilst the assumptions vary across the businesses, the Group is satisfied of the ability of the businesses to manage its operations even under an extreme stress-tested scenario. Another special Board meeting was held on 6 April 2020 to discuss and approve some of the actions on expense control and capital expenditure decisions.
- The 'Project Risk Assessment Committee', a sub-committee of the Board which was established in 2018/19 to augment the Group's investment and risk evaluation framework, and to provide the Board with increased visibility of large-scale new investment projects, convened in the immediate aftermath of the Easter Sunday attacks to assess the market risks and impacts on the Group, particularly in relation to the on-going development projects in the Leisure and Property industry groups.



Section 3.2.5 for details.

- In July 2019, the SEC called for public opinion under the title, 'Public Consultation on Segregation of CEO and Chairman Role Performed by One Individual in Listed Entities'. Whilst the combined role of the Chairman-CEO at JKH is periodically reviewed at Board and Management level, a further review was done in July and supported by empirical evidence. The Group maintained its position that the combination of the two roles was most appropriate for the Group at this juncture, in meeting stakeholder objectives in a

large diversified conglomerate setting and given the need for nimble and agile leadership. The Group is of the view that the SEC should limit the segregation of the roles of Chairman and CEO to a voluntary compliance requirement, especially if concerns associated with the combined role (such as unfettered decision-making powers) are counter balanced by increased independence and transparency vis-a-vis Senior Independent Director, majority Independent Directors, Nominations Committee and the process of the appointment of Directors. The Group's position in this regard was communicated to the SEC.



Section 3.3 for details.

- The 'Group Audit Committee Forum', an interactive forum for Audit Committees of Group businesses chaired by the Chairman of the JKH Audit Committee, was held twice during 2019/20 for information and knowledge sharing on best practice and to address Group-wide challenges on accounting, internal controls, risk management and related matters.
- Given the Group's investment pipeline into warehousing: (1) the centralised distribution centre in Panagoda for the Supermarket business; and (2) a multi-use logistics centre in Muthurajawela for the Logistics business (LogiPark International (Private) Limited), the Group re-evaluated its exposure to warehousing and de-risked the investments by re-purposing the Muthurajawela land to function as the new distribution centre for the Supermarket business. Concurrently, for reporting purposes, the businesses were realigned, where LogiPark International (Private) Limited, previously reported under the Transportation industry group, was moved under the Retail industry group.
- Internal Controls were further strengthened during 2019/20, where the 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.

- The anti-money laundering and anti-corruption policies were updated and rolled out across the Group in furtherance of its drive towards better assurance.



Section 5.5 for details.

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



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 offboarding.
- During the year under review, the Group rolled-out its advanced analytics transformation programme where several well-defined advanced analytics use cases, focused on the Supermarket business and the Insurance business, 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.



Refer Intellectual Capital under the Capital Management Review of the Annual Report

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- The Board of Directors, with the approval of the Colombo Stock Exchange, convened an Extraordinary General Meeting (EGM) of the Company and recommended that the Employee Share Option Plan which has been in place since 1996 be renewed for Plan 10, subject to shareholder approval as a Special Resolution. Approval was granted by the shareholders of the Company at the EGM held on 28 June 2019.
- The Board declared a final dividend of Rs.1.00 per share in May 2019 for the financial year 2018/19. For the year under review, the Board declared a first interim dividend of Rs.1.00 per share in November 2019, and a second interim a of Rs.1.50 in January 2020. The second interim is an increase from the previous two dividend payments of Rs.1.00 each per share, reflecting the positive momentum and outlook for the performance of the businesses at the time of declaring the dividend.

Highlights of the 39th Annual General Meeting Held on 29 June 2019

- Mr. J. G. A. Cooray, who retired in terms of Article 84 of the Articles of Association of the Company was re-elected as an Executive Director of the Company.
- Dr. S. S. H. Wijayasuriya, who retired in terms of Article 84 of the Articles of Association of the Company was re-elected as a Non-Executive Independent Director of the Company.
- Dr. R. Coomaraswamy, who retired in terms of Article 91 of the Articles of Association of the Company, was re-elected as Non-Executive Independent Director of the Company.
- Ernst & Young (E&Y) was re-appointed as the External Auditors of the Company and the Directors were authorised to determine the remuneration of E&Y.

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 Group's ability in meeting diverse stakeholders needs and creating sustainable value. The 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 JKH are detailed in the ensuing section.

Board Diversity

JKH 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 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 customer and employee populations of the Group, and every effort is made to attract appropriately qualified women to the Group's various Boards.

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 Group will continue to focus on maintaining suitable channels of communication with investors and analysts, as required, on a timely basis.

"Given the rapidly advancing nature of technology and the continual integration of the Group's operations, the Board places significant emphasis on ensuring that the Group's soft and hard infrastructure is adequate to meet a potential breach."

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 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.

Digital Oversight and Cyber Security

The rapidly advancing nature of technology and the continual integration of the Group's operations with technological progress has resulted in increased vulnerability for the Group from a digital standpoint. As a result, the Board places significant emphasis on ensuring that the 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.

Data Protection, Information Management and Adoption

Although the 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 Group. To address this divergence, awareness sessions are being conducted across Group companies 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 Group will continue to strengthen its data governance structure to ensure ownership and accountability of clearly articulated data governance policies and processes and Group-wide data quality standards.

Board Refreshment and Independence

Although some argue that frequent board refreshment is needed to ensure independence, fresh ideas and new experiences in line with the changing nature of business, others argue that tenured and experienced Directors who are well aware of the nature of the business are better decision makers. The Group believes in striking a balance between board refreshment and independence, particularly given the complex nature of its operations in a diversified conglomerate setting.

Greater Employee Involvement in Governance

Employees play a pivotal role in reinforcing an effective governance system across the Group. Going forward, JKH 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.

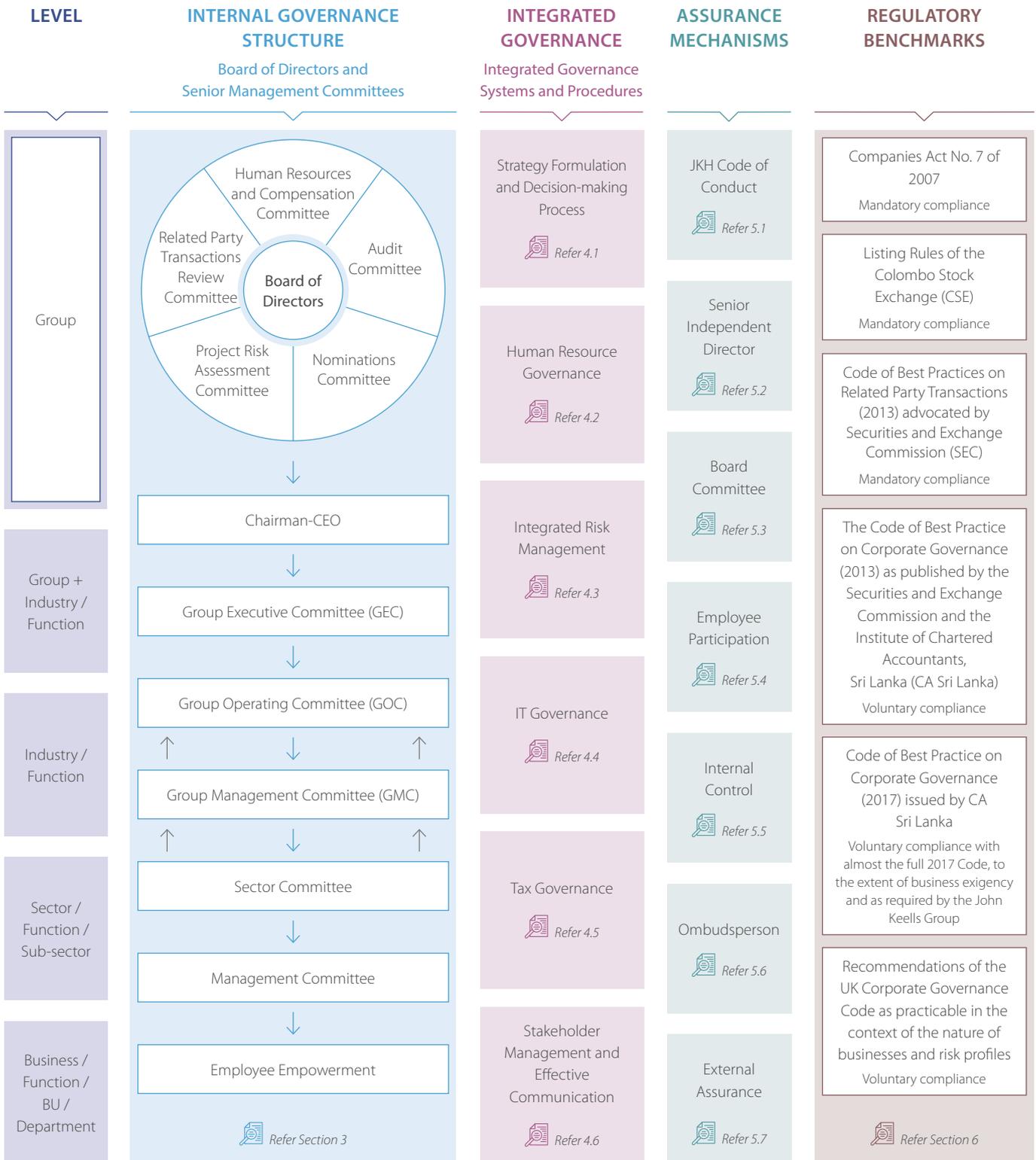
Key Governance Disclosures

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Nominations Committee	3.2.3
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"The Group will continue to strengthen its data governance structure to ensure ownership and accountability of clearly articulated data governance policies and processes and Group-wide data quality standards."

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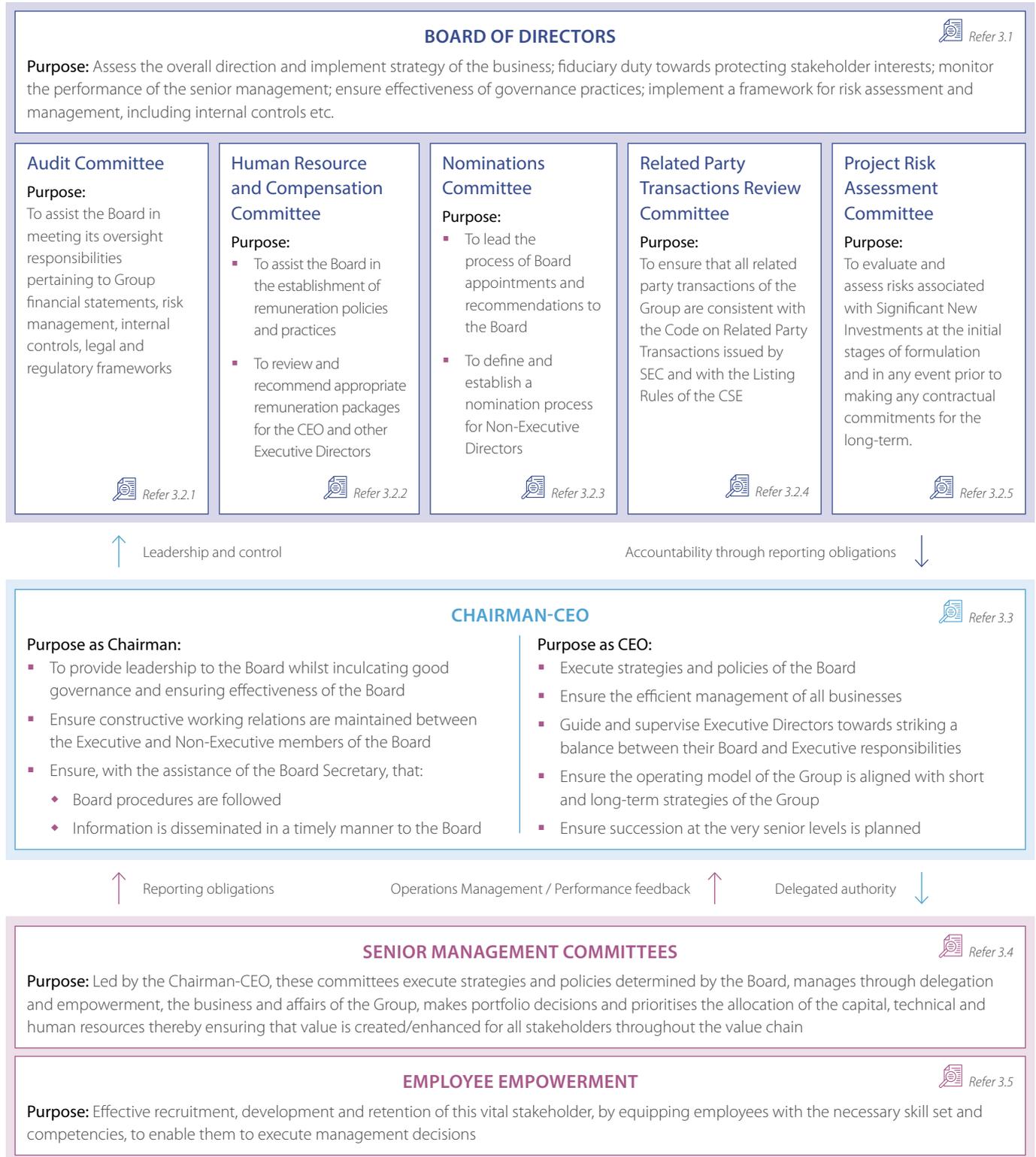
2 THE CORPORATE GOVERNANCE SYSTEM



- All 4 Board Sub-Committees are chaired by Independent Directors appointed by the Board.
- The Chairman-CEO is present at all Human Resources and Compensation Committee meetings unless the Chairman-CEO'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 Chairman-CEO and the Deputy Chairman/Group Finance Director. The Head of Group Business Process Review, External Auditors and the Group Financial Controller are regular attendees.
- GOC acts as the binding agent to the various businesses within the Group towards identifying and extracting Group synergies.
- Only the key components are depicted in the diagram due to space constraints.

3 INTERNAL GOVERNANCE STRUCTURE

The Internal Governance Structure comprises of the committees which formulate, execute and monitor 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.

CORPORATE GOVERNANCE COMMENTARY

3.1 The Board of Directors

3.1.1 Board Responsibilities

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

The Board's key responsibilities include:

- Providing direction and guidance to the Group in the formulation of sustainable, high-level, medium, and long-term strategies which are aimed at promoting the long-term success of the Group.
- Reviewing and approving annual plans and long-term business plans.
- Tracking actual progress against plans.
- Reviewing HR processes with emphasis on top management succession planning.
- Ensuring operations are carried within the scope of the Enterprise Risk Management framework.
- Appointing and reviewing the performance of the Chairman-CEO.
- 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.
- Approving the issue of JKH equity/debt securities.
- Ensuring all Related Party Transactions are compliant with statutory obligations.

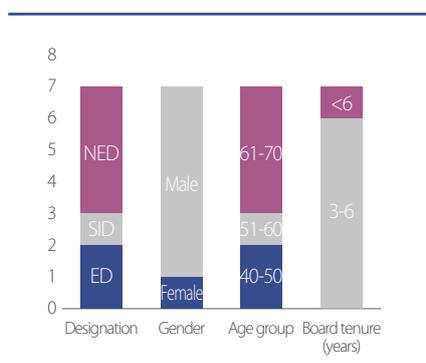
"As at 21 May 2020, the Board comprised of 7 Directors, with 5 of them being Non-Executive Independent Directors."

3.1.2 Board Composition

As at 21 May 2020, the Board comprised of 7 Directors, with 5 of them being Non-Executive Independent Directors. Ms. R. Coomaraswamy resigned from her position on the Board as a Non-Executive Independent Director with effect from 31 December 2019.

The Group policy is to maintain a healthy balance between the Executive, Non-Executive and Independent Directors, in keeping with the applicable rules and codes, with the Executive Directors bringing in deep knowledge of the businesses and the Non-Executive Independent Directors bringing in experience, objectivity and independent oversight.

The current composition of the JKH Board is illustrated as follows:



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 judgement.

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

The Group is also 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 is encouraged to seek 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 Terms of Reference for the members of the Nominations Committee and the Committee report 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. Details of such appointments are also carried in the relevant Interim Releases and the Annual Reports. 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 Group values and culture, its operating model, policies, governance framework and processes, the Code of Conduct and the operational strategies of the 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 and Risk Consultants.

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 Directors are appointed for a period of three years and are eligible for re-election by the shareholders. Non-Executive Directors can serve up to a maximum of three successive terms unless an extended Board tenure is necessitated by the requirements of the Group. Annually, the Board discusses the possibility of any impairment of Director independence due to extended Board tenures, and collectively evaluates the re-election of such Board members. The Executive Directors, other than the Chairman-CEO, are re-elected in a manner that is similar to the re-election of Non-Executive Directors.

3.1.8 Board Meetings

3.1.8.1 Regularity of Meetings and Pre-Board Meetings

During the financial year under review, there were 5 pre-scheduled Board meetings. Each of the pre-scheduled Board meetings are generally preceded by a Pre-Board meeting, which is usually held on the day prior to the formal Board Meeting. In addition to these Pre-Board meetings, the Board of Directors communicate, as appropriate, when issues of strategic importance requiring extensive discussions arise. Subsequent to the Easter Sunday attacks, the Board of Directors also convened at an Extraordinary Board Meeting to understand the impacts on the Group, particularly the Leisure industry group. The Board was also apprised of the revisions to risk levels and consequent risk mitigatory actions.

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

Name	7/May/2019**	24/May/2019	25/July/2019	1/Nov/2019	29/Nov/2019	29/Jan/2020	31/Mar/2020***	6/Apr/2020****	Eligibility	Attended
K. Balendra	✓	✓	✓	✓	✓	✓	✓	✓	8	8
G. Cooray	✓	✓	✓	✓	✓	✓	✓	✓	8	8
N. Fonseka	✓	✓	✓	✓	✓	✓	✓	✓	8	8
A. Cabraal	✓	✓	✓	✓	✓	✓	✓	✓	8	8
P. Perera	✓	✓	✓	✓	✓	✓	✓	✓	8	8
H. Wijayasuryiya	✓	✓	✗	✓	✓	✓	✓	✓	8	7
A. Omar	✓	✓	✓	✓	✓	✓	✓	✓	8	8
R. Coomaraswamy*	✗	✓	✓	✗	✓	N/A	N/A	N/A	5	3

By video conference/phone

* Resigned from the Board with effect from 31 December 2019.

** Extraordinary Board Meeting to understand the impacts on the Group subsequent to the Easter Sunday attacks on 21 April 2019.

*** Extraordinary Board Meeting to understand the impacts of the COVID-19 pandemic on the businesses based on various scenarios, and to discuss strategies going forward.

**** Supplemental Extraordinary Board meeting to the Board meeting held on 31 March 2020, to further discuss the impacts and action plan for the Group on the back of the COVID-19 pandemic.

3.1.8.2 Timely Supply of Information

The Directors were provided with necessary information, well in advance, by way of electronic Board papers and proposals, as relevant, for all 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-CEO 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 in 2019/20 entailed ratification of Circular Resolutions, discussion of matters arising from

the previous minutes, submission of Board Sub-Committee reports, 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

The Head of Legal, Secretarial and Corporate Social Responsibility (CSR) functions of the Group is the Secretary to the Board, who is an Attorney-at-Law by profession. In addition to maintaining Board minutes and Board records, the Board 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 of the Group. It is estimated that Non-Executive Directors each devote a minimum of 30 full-time equivalent days to the Group during the year. The general time allocation is as illustrated below.

Time Commitment

(%)



In addition to attending Board meetings and Pre-Board meetings, the Directors have attended the respective Sub-Committee meetings and have also contributed to decision-making via Circular Resolutions and one-on-one meetings with key management personnel, when necessary.

CORPORATE GOVERNANCE COMMENTARY

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 the Senior Independent Director, and the results are analysed to give the Board an indication of its effectiveness as well as areas that require 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.

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 Committee membership are available with the Company Secretary for inspection by shareholders, on request.

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

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

Criteria for Defining Independence	Status of Conformity of NEDs
1. Shareholding carrying not less than 10 per cent of voting rights	None of the individual EDs' or 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 JKH and/or material business relationship with JKH, currently or in the two years immediately preceding appointment as Director	None of the NED/IDs are employed or have been employed at JKH
5. Close family member is a Director, CEO or a Key Management Personnel	No family members of the EDs or NED/IDs is a Director or CEO of a related party company
6. Has served on the Board continuously for a period exceeding nine years from the date of the first appointment	No NED 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 JKH and/or JKH 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.

No Non-Executive Independent Director 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 Group Board seats) held in other listed companies (outside the Group) by each Director.

Name of Director	No. of Board Seats Held in Other Listed Sri Lankan Companies	
	Executive Capacity	Non-Executive Capacity
K Balendra	Nil	Nil
G Cooray	Nil	Nil
N Fonseka	Nil	Nil
A Cabraal	Nil	Ceylon Beverage Holdings PLC Hatton National Bank PLC Lion Brewery (Ceylon) PLC Sunshine Holdings PLC
A Omar	Nil	Teejay Lanka PLC
P Perera	Nil	Nil
H Wijayasuriya	Nil	Dialog Axiata PLC Dialog Finance PLC

3.1.12 Director Remuneration

3.1.12.1 Executive Director Remuneration

The Human Resources and Compensation Committee is responsible for determining the compensation of the Chairman-CEO and the Deputy Chairman/Group Finance Director, both Executive Directors of the Group.



Refer Section 3.2.2 of this Report for further details.

A significant proportion of Executive Director 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-CEO about any proposals relating to the Executive Director remuneration, other than that of the Chairman-CEO.

During the year, ESOPs, valued using a binomial pricing model, were granted to the Executive Directors 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 this Annual Report.

	2019/20	2018/19	2017/18
Excluding Employee Share Options granted, total aggregate remuneration paid to Executive Directors	Rs.119 million	Rs.153 million	Rs.193 million
Variable portion linked to the performance benchmark	Rs.39 million (33%)	Rs.40 million (26%)	Rs.62 million (32%)
Fixed remuneration paid to Executive Directors	Rs.80 million (67%)	Rs.113 million (74%)	Rs.131 million (68%)

The decrease in both the fixed and variable components of remuneration is on account of the Board comprising of two Executive Directors for a majority of 2019/20 compared to three Executive Directors for a majority of 2018/19. Similar to the previous year, the relatively higher proportion of fixed remuneration arises from the Group not meeting certain performance benchmarks amidst the challenging macro environment.

3.1.12.2 Non-Executive Director Remuneration

The compensation of Non-Executive Directors was determined in reference to fees paid to other Non-Executive Directors of comparable companies, and adjusted, where necessary, in keeping with the complexity of the Group. Non-Executive Directors were paid additional fees for either chairing or being a member of a Sub-Committee and did not receive any performance/incentive payments/share option plans.

Total aggregate of Non-Executive Director remuneration for the year was Rs18.6 Mn.

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 some of its 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:

i. Audit Committee

ii. Human Resources and Compensation Committee

iii. Nominations Committee

iv. Related Party Transactions Review Committee

v. Project Risk Assessment Committee

CORPORATE GOVERNANCE COMMENTARY

The Board Sub-Committees comprise predominantly of Independent Non-Executive Directors. The membership of the five Board Sub-Committees is as follows:

Board Sub-Committee membership as at 31 March 2020	Audit Committee	Human Resources and Compensation Committee	Nominations Committee**	Related Party Transactions Review Committee	Project Risk Assessment Committee
Executive					
K Balendra – Chairman-CEO*			●		●
G Cooray – Deputy Chairman / Group Finance Director					●
Senior Independent Non-Executive					
N Fonseka	●			●	
Independent Non-Executive					
A Cabraal	●	●		●	
A Omar		●	●		
P Perera***	●		●	●	●
H Wijayasuriya		●	●		●

- Committee Member
- Committee Chair

* Composition of the Related Party Transactions Review Committee was reconstituted at the Board Meeting held on 31 March 2020, following which Mr. K Balendra was released from his role in the committee. Mr. Balendra will attend meetings, as required, by invitation.

** Dr. R. Coomaraswamy, formally a member of the Nominations Committee, resigned from the Board with effect from 31 December 2019.

*** Composition of the Nominations Committee was reconstituted at the Board Meeting held on 24 May 2019, following which Ms. P Perera was released from her role in the Nominations committee. Following the resignation of Dr. R Coomaraswamy, Ms. P Perera was reappointed to the Nominations Committee.

3.2.1 Audit Committee

COMPOSITION

- All members to be Non-Executive, Independent Directors, with at least one member having significant, recent and relevant financial management and accounting experience and a professional accounting qualification.
- The Chairman-CEO and the Group Finance Director are permanent invitees for all Committee meetings. The Group Financial Controller is also present at discussions relating to Group reporting.
- The Head of the Group Business Process Review division is the Secretary of the Committee.

SCOPE

- Review the quarterly and annual financial statements, including the quality, transparency, integrity, accuracy and compliance with accounting standards, laws and regulations.
- Assess the adequacy and effectiveness of the internal control environment in the Group and ensure appropriate action is taken on the recommendation of the internal auditors.
- Evaluate the competence and effectiveness of the risk management systems of the Group and ensure the robustness and effectiveness in monitoring and controlling risks.
- Review the adequacy and effectiveness of the internal audit arrangements.
- 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.

3.2.1.1 Report of the Audit Committee

Role of the Committee

The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in relation to the integrity of the financial statements of the Company and the Group, the internal control and risk management systems of the Group, compliance with legal and regulatory requirements, the External Auditors' performance, qualifications and independence, and, the adequacy and performance of the Internal Audit function undertaken by the Group Business Process Review division (Group BPR). The scope of functions and responsibilities are adequately set out in the terms of reference of the Committee which has been approved by the Board and is reviewed annually.

The Committee's responsibilities pertain to the Group as a whole and in discharging its responsibilities, the Committee places reliance on the work of other Audit Committees in the Group without prejudicing the independence of those Committees. However, to the extent, and in a manner, it considers appropriate, the Committee provides feedback to those entities for their consideration and necessary action. An interactive forum with the participation of members of Audit Committees of Group entities was also held to discuss ways and means of improving coordination with Group BPR and to exchange information on best practice.

The effectiveness of the Committee is evaluated annually by each member of the Committee and the results are communicated to the Board.

Composition of the Committee and Meetings

The Audit Committee is comprised by the undersigned and the following Independent Non-Executive Directors:
A Cabraal
P Perera

The Head of the Group BPR division, served as the Secretary to the Audit Committee.

The Audit Committee met five times during the financial year. Information on the attendance at these meetings by the members of the Committee is given on the Corporate Website. The Chairman-CEO, the Deputy Chairman/Group Finance Director, Group Financial Controller and the External Auditors attended most parts of these meetings by invitation. The Internal Auditors carrying out outsourced assignments and relevant executives of the Company and the Group also attended these meetings on a needs basis. The Committee engaged with management to review key risks faced by the Group as a whole and the main sectors with a view to obtaining assurances that appropriate and effective risk mitigation strategies were in place.

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

Financial Reporting

The Audit Committee has reviewed and discussed the Group's quarterly and annual financial statements with management and the External Auditors prior to publication. The scope of the review included ascertaining compliance of the statements and disclosures with the Sri Lanka Accounting Standards, the appropriateness and changes in accounting policies and material judgemental matters. The Committee also discussed with the External Auditors and Management, any matters communicated to the Committee by the External Auditors in their reports to the Committee on the audit for the year.

The External Auditors were also engaged to conduct a limited review of the Group's interim financial statements for the six months ended 30 September 2019. The results of this review were discussed with the External Auditors and management.

The Committee obtained independent input from the External Auditors on the effects of any new Sri Lanka Accounting Standards that came into effect for the year under review and satisfied themselves that the necessary preparatory work was carried out, to enable the Company to comply with these new standards.

Internal Audit, Risks and Controls

The Committee reviewed the adequacy of the Internal Audit coverage for the Group and the Internal Audit Plans for the Group with the Head of the Group BPR division and Management. The Internal Audit function of most Group companies is outsourced to leading professional firms under the overarching direction and control of the Group BPR division.

The Group BPR division regularly reported to the Committee on the adequacy and effectiveness of internal controls in the Group and compliance with laws and regulations and established policies and procedures of the Group. Reports from the outsourced Internal Auditors on the operations of the Company and some of the unquoted subsidiaries of the Company were also reviewed by the Committee. Follow-up action taken on the recommendations of the outsourced Internal Auditors and any other significant follow-up matters were documented and presented to the Committee on a quarterly basis by the Head of Group BPR.

The Group BPR division, drawing from the growing benefits of assurance related inputs provided by the digital forensic capability that is operational across the entire Group, has extended the scope of the project to include measures to optimise internal process efficiencies and behavioural responses with a view to enhancing operational controls and to support governance reporting.

The Group BPR division has adopted an integrated fraud deterrent and investigation framework to drive greater stakeholder synergies and collaboration efficiencies between components that deliver governance and assurance and related services, and has implemented a digital platform for compliance reporting and monitoring purposes.

The Sustainability and Enterprise Risk Management division reported to the Committee on the process of identification, evaluation and management of all significant risks faced by the Group. The report covered the overall risk profile of the Group for the year under review in comparison with that for the previous year, and the most

significant risks from a Group perspective together with mitigatory action. The Group functions in an environment where not all risks can be completely eliminated and in this context the Committee reviews remedial measures taken to manage risks that do materialise .

Formal confirmations and assurances were obtained from the senior management of Group companies on a quarterly basis regarding the efficacy and status of the internal control systems and risk management systems and compliance with applicable laws and regulations.

The Committee reviewed the whistle-blowing arrangements for the Group and had direct access to the Ombudsperson for the Group. The effectiveness and resource requirements of the Group BPR division were reviewed and discussed with management and changes were effected where considered necessary.

External Audit

The External Auditors' Letter of Engagement, including the scope of the audit, was reviewed and discussed by the Committee with the External Auditors and management prior to the commencement of the audit.

The External Auditors kept the Committee advised on an on-going basis regarding matters of significance that were pending resolution. Before the conclusion of the Audit, the Committee met with the External Auditors and management to discuss all audit issues and to agree on their treatment. This included the discussion of formal reports from the External Auditors to the Committee. The Committee also met the External Auditors, without management being present, prior to the finalisation of the financial statements to obtain their input on specific issues and to ascertain whether they had any areas of concern relating to their work. No matters other than those already discussed with management were raised by the External Auditors.

The External Auditors' final management reports on the audit of the Company and Group financial statements for the year 2019/2020 were discussed with management and the auditors.

CORPORATE GOVERNANCE COMMENTARY

The Committee is satisfied that the independence of the External Auditors has not been impaired by any event or service that gives rise to a conflict of interest. Due consideration has been given to the nature of the services provided by the Auditors and the level of audit and non-audit fees received by the Auditors from the John Keells Group. The Committee also reviewed the arrangements made by the Auditors to maintain their independence and confirmation has been received from the Auditors of their compliance with the independence guidance given in the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

The performance of the External Auditors has been evaluated with the aid of a formal assessment process with input provided by the senior management of the Company and the Committee has recommended to the Board that Ernst & Young be re-appointed as the Lead/ Consolidation Auditor of the Group for the financial year ending 31 March 2021, subject to approval by the shareholders at the Annual General Meeting.



N Fonseka
Chairman of the Audit Committee

21 May 2020

3.2.1.2 Audit Committee meeting attendance

No of meetings - 5

	Eligible to Attend	Attended
A Cabraal	5	5
N Fonseka	5	5
P Perera	5	5
By Invitation		
K Balendra	5	5
G Cooray	5	5

3.2.2 Human Resources and Compensation Committee

COMPOSITION

- Committee to comprise exclusively of Non-Executive Directors, a majority of whom shall be independent.
- The Chairman of the Committee must be a Non-Executive Director.
- The Chairman-CEO and Group Finance Director are present at all Committee meetings unless the Chairman-CEO or Executive Director remuneration is under discussion respectively.
- The Deputy Chairman/Group Finance Director is the Secretary of the Committee.

SCOPE

- Review and recommend overall remuneration philosophy, strategy, policies and practice and, performance-based pay plans for the Group.
- Determine and agree with the Board a framework for remuneration of Chairman and Executive Directors based on performance targets, benchmark principles, performance-related pay schemes, industry trends and past remuneration.
- Succession planning of Key Management Personnel.
- Determining compensation of Non-Executive Directors will not be under the scope of this Committee.

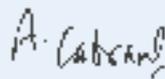
3.2.2.1 Report of the Human Resources and Compensation Committee

The Committee determined the remuneration of the Executive Directors including the Chairman-CEO in terms of the methodology set out by the Board, upon an evaluation of their performance by the Non-Executive Directors. The evaluations of the members of the Group Executive Committee were considered by the Committee and remuneration was determined based on performance, market comparators for similar positions and in accordance with the Company's Compensation and Benefits policy.

A report from the Chairman of the Human Resources and Compensation Committee continues to be a standing agenda item at the quarterly Board meetings. The Chairman of the Committee reports on the developments which have taken place since the last Board meeting, if any, and updates the Board on various matters, as relevant and requested.

The Committee wishes to report that the Company has complied with the Companies Act in relation to remuneration of Directors. The annual performance appraisal scheme, the calculation of short-term incentives, and the award of ESOPs were executed in accordance with the proposals approved by the Board, based on discussions conducted between the Committee and the Management.

I wish to thank Mrs. Dilani Alagaratnam, President responsible for Human Resources who retired on 31.12.2019, for providing proactive guidance to enable this committee to fulfil its responsibilities and my colleagues in the Committee for their critical input.



A Cabraal
Chairman of the Human Resources and Compensation Committee

21 May 2020

3.2.2.2 Human Resources and Compensation Committee meeting attendance

No of meetings - 3

	Eligible to Attend	Attended
A Cabraal	2	2
A Omar	2	1
H Wijayasuriya	2	2
By Invitation		
K Balendra	2	2
G Cooray	2	2

3.2.3.2 Nominations Committee meeting attendance

No of meetings - 3

	Eligible to Attend	Attended
K Balendra	2	2
R Coomaraswamy*	2	2
A Omar	2	2
P Perera**	1	1
H Wijayasuriya	2	2

* Retired from the Board with effect from 31 December 2019.

** Composition was reconstituted at the Board Meeting held on 24 May 2019.

3.2.3 Nominations Committee

COMPOSITION

- Majority of the members of the Committee shall be Non-Executive Directors together with the Chairman-CEO.
- The Chairman of the Committee must be an Independent Non-Executive Director.
- The Head of Legal is the Secretary of the Committee.

SCOPE

- Assess skills required on the Board given the needs of the businesses.
- From time to time assess the extent to which the required skills are represented at the Board.
- Prepare a clear description of the role and capabilities required for a particular appointment.
- Identify and recommend suitable candidates for appointments to the Board.
- Ensure, on appointment to Board, Non-Executive Directors 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.
- Ensure that every appointee undergoes an induction to the Group.
- The appointment of Chairperson and Executive Directors is a collective decision of the Board.

3.2.3.1 Report of the Nominations Committee

The Nominations Committee, as of 31 March 2020, consisted of the following members:

A Omar (Chairman)
H Wijayasuriya
K Balendra
P Perera

The self-review of the mandate of the Committee reaffirmed that it exists to:

- To recommend to the Board the process of selecting the Chairman and Deputy Chairman.
- To identify suitable persons who could be considered for appointment to the Board of JKH PLC and other Listed Companies in the Group, as Non-Executive Directors.
- Make recommendation on matters referred to it by the Board.

During the reporting period, the following appointments were made consequent to approval obtained from the Committee, Mr. M R Svensson, as a Director of Asian Hotels and Properties PLC and Dr. K A Gunasekera, as a Director of John Keells Hotels PLC.

The Committee continues to work with the Board on reviewing its skills mix, based on the immediate and emerging needs. Further, the Committee discusses with the Board the outputs of the Annual JKH Board Evaluation.



A Omar
Chairman of the Nominations Committee

21 May 2020

CORPORATE GOVERNANCE COMMENTARY

3.2.4 Related Party Transactions Review Committee

COMPOSITION

- The Chairman must be a Non-Executive Director.
- May include at least one Executive Director.

SCOPE

- The Group has broadened the scope of the Committee to include senior decision makers in the list of key management personnel, whose transactions with Group companies also get reviewed by the Committee, in addition to the requisitions of the CSE.
- 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 Group.
- Update the Board on related party transactions of each of the listed companies of the Group on a quarterly basis.
- 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 Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies.

3.2.4.2 Related Party Transactions Review Committee meeting attendance

No of meetings - 4

	Eligible to Attend	Attended
A Cabraal	4	3
N Fonseka	4	4
P Perera	4	4
K Balendra	4	4
By Invitation		
G Cooray	4	4

3.2.4.1 Report of the Related Party Transactions Review Committee

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

P Perera
N Fonseka
A Cabraal
K 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 John Keells Holdings PLC and its listed Subsidiaries, to ensure compliance with the Code on Related Party Transactions, as issued by the Securities and Exchange Commission of Sri Lanka ('The Code') and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practice as recommended by the Institute of Chartered Accountants of 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: John Keells PLC, 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.



P Perera

Chairperson of the Related Party Transactions Review Committee

13 May 2020

* Released from role with effect from 31 March 2020

3.2.5 Project Risk Assessment Committee

COMPOSITION

- Should comprise of a minimum of four Directors.
- Must include the Chairman-CEO and Group Finance Director.
- Must include two Non-Executive Directors.
- The Chairman must be a Non-Executive Director.

SCOPE

- Review and assess risks associated with large-scale investments and the mitigatory plans thereto, if mitigation is possible, and identify risks that cannot be mitigated.
- Ensure stakeholder interests are aligned, as applicable, in making this investment decision.
- Where appropriate, obtain specialised expertise from external sources to evaluate risks, in consultation with the Group Finance Director.
- Recommend to the Board, necessary action required, to mitigate 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.

Note that the Committee shall only convene when there is a need to transact in business as per the terms of its mandate.

3.2.5.1 Report of the Project Risk Assessment Committee

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

H. Wijayasuriya
P. Perera
K. Balendra
G. Cooray

The Project Risk Assessment Committee was established with the purpose of further augmenting the Group's Investment Evaluation Framework. The committee provides the Board with increased visibility of large-scale new investments and assists the Board to assess risks associated with significant investments, above a Board-agreed investment threshold, at the initial stages of discussion, to obtain feedback and relevant inputs in relation to mitigating risks, and, prior to committing to structuring agreements.

The Committee convened once during the year under review, in the aftermath of the Easter Sunday terror attacks on 21 April 2019. The discussion primarily centred around the risks and level of impact to the Group under different scenarios - particularly to the ongoing Property construction projects and the consequent risk mitigatory actions.



H. Wijayasuriya
Chairman of the Project Risk Assessment Committee

21 May 2020

3.2.5.2 Project Risk Assessment Committee meeting attendance

No of meetings - 1

	Eligible to Attend	Attended
H. Wijayasuriya	1	1
P. Perera	1	1
K. Balendra	1	1
G. Cooray	1	1

3.3 Combined Chairman-CEO Role

The Group's Chairman continued to play the role of the CEO in addition to the role of Chairman. The appropriateness of combining the two roles is discussed in detail in the ensuing section.

3.3.1 Appropriateness of Combining the Roles of Chairman and CEO

The appropriateness in combining the combination of the roles of the Chairman-CEO was established after rigorous evaluation and debate, internally and externally. During the year under review, the appropriateness of continuing with the combined role was revisited and rigorously evaluated, particularly given the increased emphasis placed by the Securities and Exchange Commission of Sri Lanka on this matter - subsequent to which the Board maintained its position that the combination of the two roles is more appropriate for the Group in meeting stakeholder objectives in a large diversified conglomerate setting. This view takes into consideration not only the diversity of the businesses the Group engages in but also the macro economic conditions which requires the leadership to be nimble and agile.

"After rigorous evaluation, the combination of the two roles - Chairman & CEO - is deemed more appropriate for the Group in meeting stakeholder objectives in a large diversified conglomerate setting and taking into consideration the macro economic conditions which requires the leadership to be nimble and agile."

CORPORATE GOVERNANCE COMMENTARY

- In recent years, companies in certain geographies have moved toward separating the Chairman and CEO roles, as it is believed, in theory, that an Independent Chairman improves the ability of the Board of Directors to oversee management. However, most empirical research concludes that the independence status of the Chairman is not a material indicator of firm performance or governance quality [Balinga, Moyer, and Rau (1996), Andargachew Zelleke (2003), Dey, Engel, and Liu (2011), Krause, Semadeni, and Cannella (2013)].
- Empirical evidence suggests that Board effectiveness is also affected by the Chairman's industry knowledge, leadership skills, and influence on Board process rather than by the particular leadership structure chosen.
- In July 2019, the SEC called for public opinion under the title, 'Public Consultation on Segregation of CEO and Chairman Role Performed by One Individual in Listed Entities', stating that the objective of a segregation is to ensure better governance and independence. The key criteria to evaluate effectiveness would be the degree of true independence between the two roles – particularly given circumstances surrounding controlling shareholders appointing the Chairman or Independent Directors. An analysis of the top 20 companies by market capitalisation in Sri Lanka suggested that,
 - ♦ While only ~12% had combined roles, ~63% of the entities were headed by a Non-Independent Chairman. In any event, the mere independence of the head of the Board does not necessarily indicate better governance.
 - ♦ Although ~90% of the companies consisted of a majority of Non-Executive Directors, only ~33% of the companies consisted of Boards with majority Independent Directors.
 - ♦ Further, only ~20% of the entities had a Senior Independent Director/Lead Director.
- The intended objective of achieving improved governance and higher independence can be better achieved via a focus on certain complementary actions, which have proven to be an effective assurance mechanism to the role of a combined Chairman-CEO. If the same objective can be achieved under the guidance of a combined Chairman-CEO, the introduction of a segregated role should not compromise the underlying operating model of a corporate, including that of JKH – particularly if there is no proven effectiveness in segregation. Such 'checks and balances' entail:
 - (i) Establishing a strong independent governance element via assurance mechanisms such as:
 - ♦ Presence of a Senior Independent Director who will act as the independent party to whom concerns could be voiced on a confidential basis and ensures that matters discussed at the Board level are done so in an environment which facilitates independent thought by individual Directors.
 - ♦ A Nominations Committee that ensures the nomination of Non-Executives are truly independent.
 - ♦ The presence of a Board, which comprises of majority Independent Directors.
 - ♦ Presence of an Ombudsperson.
 - (ii) Use of systematic, comprehensive Board and CEO/chair evaluations.
 - (iii) Ensuring active involvement of the Board in CEO succession and strategy formulation.

The appropriateness of merging the roles, continues to be discussed periodically. These discussions are supported by international best practice accessed through consultancy services and experts.

As the head of the Group Executive Committee, the Chairman-CEO provides the overall direction and policy/execution framework for the Board's decisions via this structure.

Experience has proved that the JKH Board composition of majority independent Directors coupled with the role of the Senior Independent Director, and other supporting Board dynamics have enabled him to effectively balance his role as the Chairman of the Board and the CEO of the Company/Group.

Given the need for a combined Chairman-CEO role, the Chairman-CEO does not come up for re-election as in the case with other Executive and Non-Executive Directors. It is noted that the Articles of Association of the Company allow for this.

3.3.2 Chairman-CEO Appraisal

The Human Resources and Compensation Committee, chaired by the Senior Independent Director, appraised the performance of the Chairman-CEO on the basis of pre-agreed goals for the Group, set in consultation with the Board. These goals cover the ensuing broad aspects and the Group's performance is assessed both against the goal and peers which involve other listed companies on the Colombo Stock Exchange:

- Creating and adding shareholder value
- Success in identifying and implementing projects
- Sustaining a first-class image
- Developing human capital
- Promoting collaboration and team spirit
- Building sustainable external relations
- Leveraging Board members and other stakeholders
- Ensuring good governance and integrity in the Group

3.3.3 Direct Discussions with the Non-Executive Directors

The Chairman-CEO conducts direct discussions with Non-Executive Directors at meetings held exclusively for Non-Executive Directors, which are convened by the Senior Independent Director. Issues arising from these discussions are actioned in consultation with the relevant persons. During the year under review, the Non-Executive Directors met twice without the presence of the Executive Directors.

3.4 Group Executive Committee and Other Management Committees

The 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-CEO 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 21 May 2020, the 6-member GEC consisted of the Chairman-CEO, the Deputy Chairman/Group Finance Director and the Presidents of each business/function. The GEC is the overlay structure that implements, under the leadership and direction of the Chairman-CEO, the strategies and policies determined by the Board, manages through delegation and empowerment, the business and affairs of the 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 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 Group.

3.4.2 Group Operating Committee (GOC)

As at 21 May 2020, the 20-member GOC consisted of the Chairman-CEO, the Deputy Chairman/Group 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 (refer GOC Profiles section of the Annual Report for more details).



Refer GEC Profiles section of the Annual Report for more details.

3.4.3 Other Management Committees

These include the Group Management Committee, Sector Committee and Management Committee which are responsible at the industry group level, sector level and business unit level respectively. 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.

The agendas of these Committees are carefully structured to avoid duplication of effort and to ensure that discussions and debate are complementary, both in terms of a bottom-

up and top-down flow of information and accountability. 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.

3.4.3 Other Management Committees

These include the Group Management Committee, Sector Committee and Management Committee which are responsible at the industry group level, sector level and business unit level respectively. 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.

The agendas of these Committees are carefully structured to avoid duplication of effort and to ensure that discussions and debate are complementary, both in terms of a bottom-up and top-down flow of information and accountability. These Committees met regularly and carried out their tasks in keeping within 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 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 Group's competency framework. To support these policies, the 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 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 is encouraged at all levels. The Group strongly believes that constructive disagreement is essential for optimal decision-making.

Moreover, the 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 Group strives to incorporate these practices, where relevant, in the supply chain contracts entered into by the Group.

CORPORATE GOVERNANCE COMMENTARY

4 INTEGRATED GOVERNANCE SYSTEMS AND PROCEDURES

Listed below are the main governance systems and procedures of the Group. These systems and procedures strengthen the elements of the JKH 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. Tax governance
- vi. Stakeholder management and effective communications
- vii. Sustainability governance

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 a situation 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 risks and opportunities
- Management of stakeholders such as suppliers and customers.
- Value enhancement through initiatives centered on the various forms of Capital under an integrated reporting framework.

The strategies of the various business units, operating in diverse industries and markets, will always revolve around the Group strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

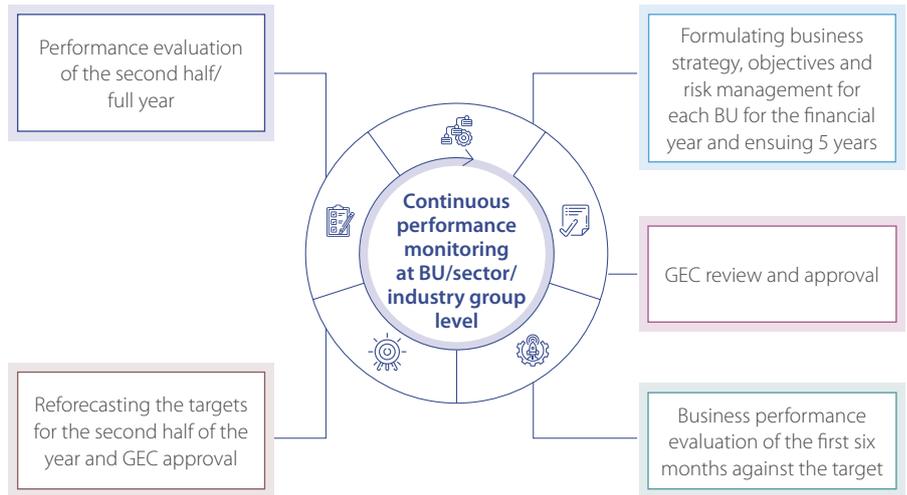
The Group's investment appraisal methodology and decision-making process ensures the involvement of all key stakeholders that are relevant to the evaluation of the decision.

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 accountability of the investment decision rests with the Chairman-CEO.

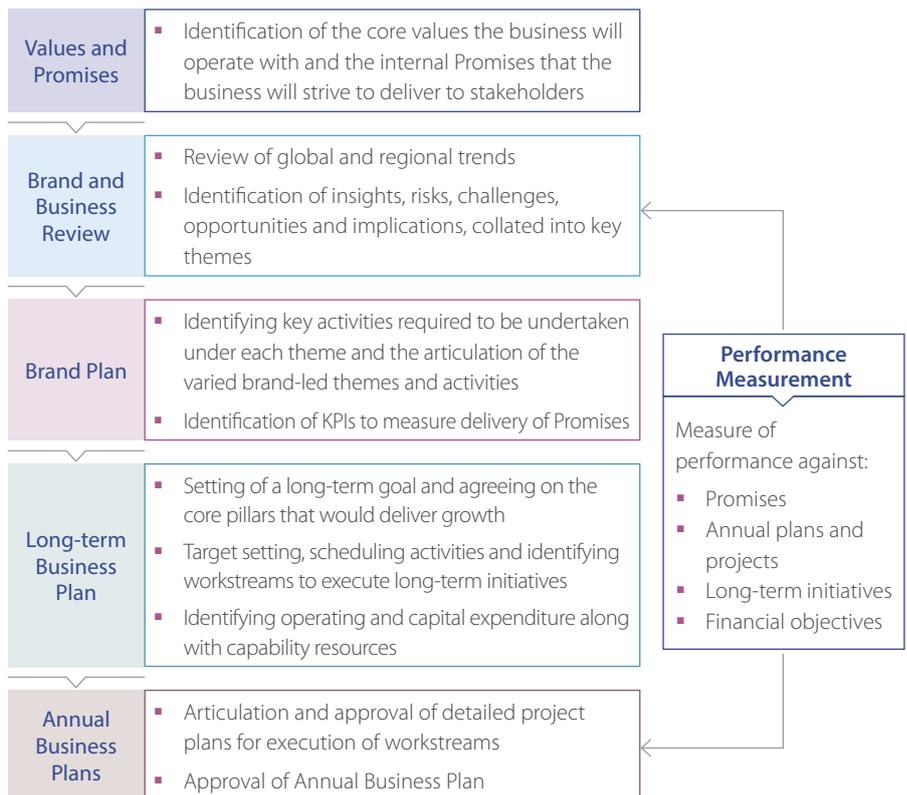
The following section further elaborates on the Group's project appraisal and execution process.



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 Group Executive Committee.

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



The Group's Project Approval Process follows a multi-step, multi-disciplined approach to ensure that all aspects are considered before a decision is made.

4.1.3 Project Approval Process

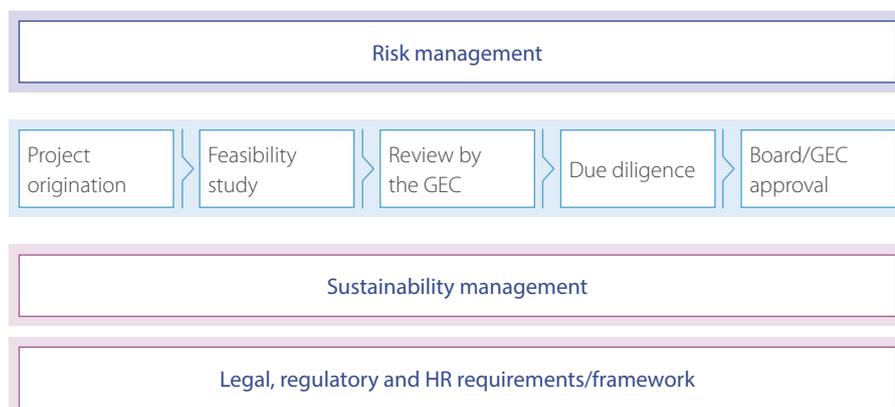
Projects undertaken at the Group follow a detailed feasibility report covering key business considerations under multiple scenarios, within a framework of sustainability. The feasibility stage is not restricted to a financial feasibility and encompasses a wider scope of work covering risk management, 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 a privatisation, 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:



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 lifecycle of the employee from onboarding to performance management, succession planning, compensation, learning and development, through to offboarding.

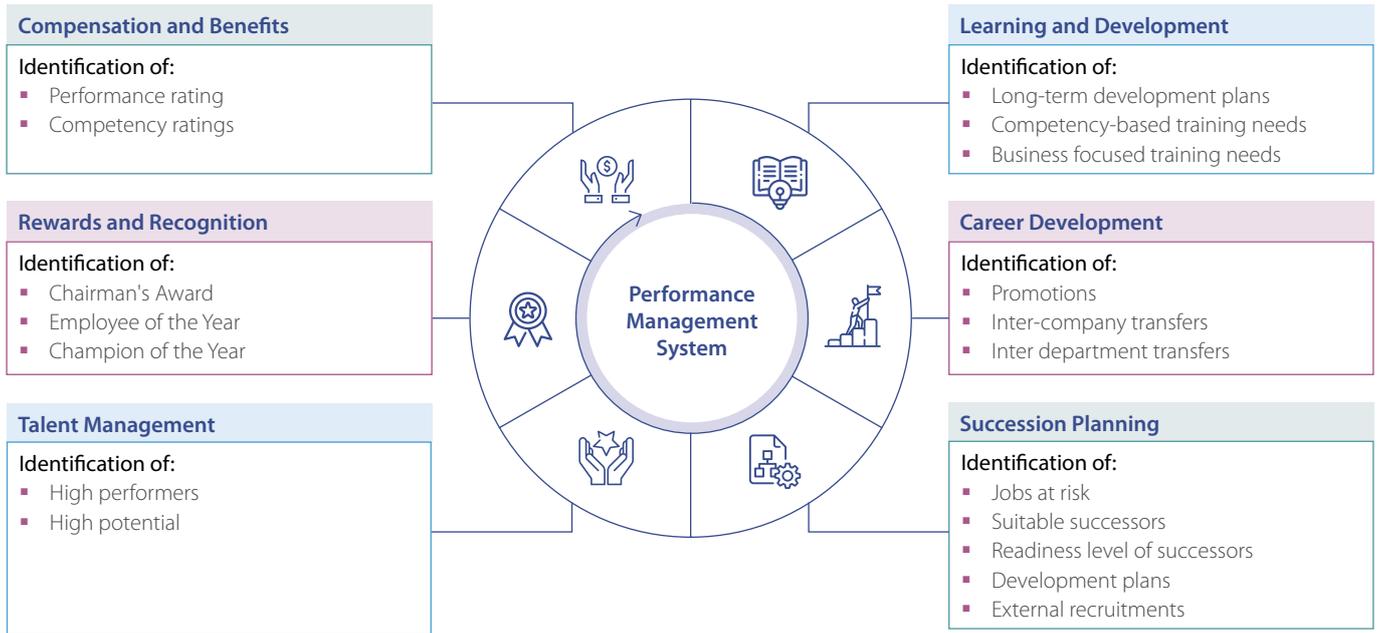
"The employees are appraised for their performance and equal emphasis is placed on how well they embody Group Values, namely: Caring, Trust, Integrity, Excellence and Innovation."

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.

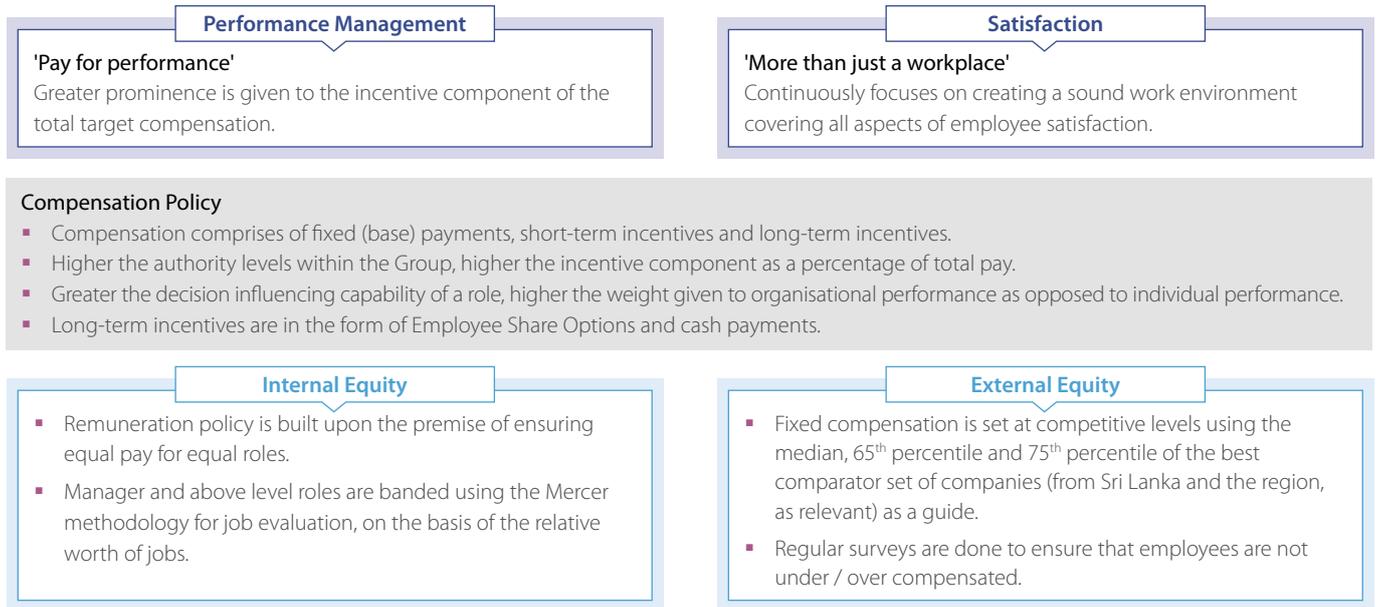
Whilst the employees are appraised for their performance, equal emphasis is placed on how well they embody Group Values, namely: Caring, Trust, Integrity, Excellence and Innovation.

CORPORATE GOVERNANCE COMMENTARY



4.2.2 Performance-Based Compensation Philosophy

The JKH Group Compensation Policy is as follows:



4.2.2.1 Equity Sharing

Employee Share Option Plans 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 significantly instrumental in inculcating a deep sense of ownership in the recipients and is seen to be a key driver of performance-driven rewards. 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.

The Company issues share options not exceeding a specified percentage of the total issued shares of the Company as at the date of awarding every such option, which is subject to in-principle approval of the Exchange and shareholder approval, by way of a Special Resolution at a General Meeting.

4.3 Integrated Risk Management

JKH's 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 Management Committees, oversee risk management across the Group to ensure that risks are brought within tolerance, managed and/or mitigated.



Please refer the Risks, Opportunities and Internal Control section and Notes to the Financial Statements of the Annual Report 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 practice and industry leading models such as CoBIT (Control Objectives for Information and Related Technology), ISO 35800, ISO27001,

ISO 9000:2008, COSO (Committee of Sponsoring Organisations of the Treadway 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. The current Quality Management system based on ISO 9000:2008 is being migrated to ISO 9001:2015 standard.

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 Center (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.

4.5 Tax Governance

The Group's tax governance framework and tax strategy is guided by the overarching principles of compliance, transparency and accountability, and acknowledges the Group's duty in fulfilling its tax obligations as per fiscal legislation, while preserving value for other stakeholders, particularly investors.

GOVERNANCE STRUCTURE

- Voluntary compliance and efficient tax management are key aspect of the Group's overall tax strategy.
- This is enabled through a decentralised tax structure where expertise is built at each industry group level.
- The Head of Tax of each industry group, reporting functionally to the Group Head of Tax, ensures compliance and implements Group tax strategy across all businesses.

POLICY AND STRATEGY

- Ensure:
 - ◆ Integrity of all reported tax disclosures
 - ◆ Robust controls and processes to manage tax risk
 - ◆ Openness, honesty and transparency in all dealings
 - ◆ Presence of legitimate business transactions underpinning any tax planning or structuring decision/opportunity
- Contribute to fiscal policy decisions constructively in the interest of all stakeholders

ROLE

- Implement and maintain strong compliance processes
- Analyse and disseminate business impact from change in tax legislation
- Provide clear, timely, and relevant business focused advice across all aspects of tax
- Ensure availability of strong and well documented technical support for all tax positions
- Obtain independent/external opinions where the law is unclear or subject to interpretation
- Foster healthy professional relationships with all regulatory authorities

REVIEW AND MONITORING

- Leverage on digital platforms to support, record and report on tax compliance status across the Group
- Periodic updates to the Board of Directors on various tax matters (quarterly at minimum)

CORPORATE GOVERNANCE COMMENTARY

The Group's approach to tax governance is directly linked to the sustainability of business operations. The presence of a well structure tax governance framework ensures the following:

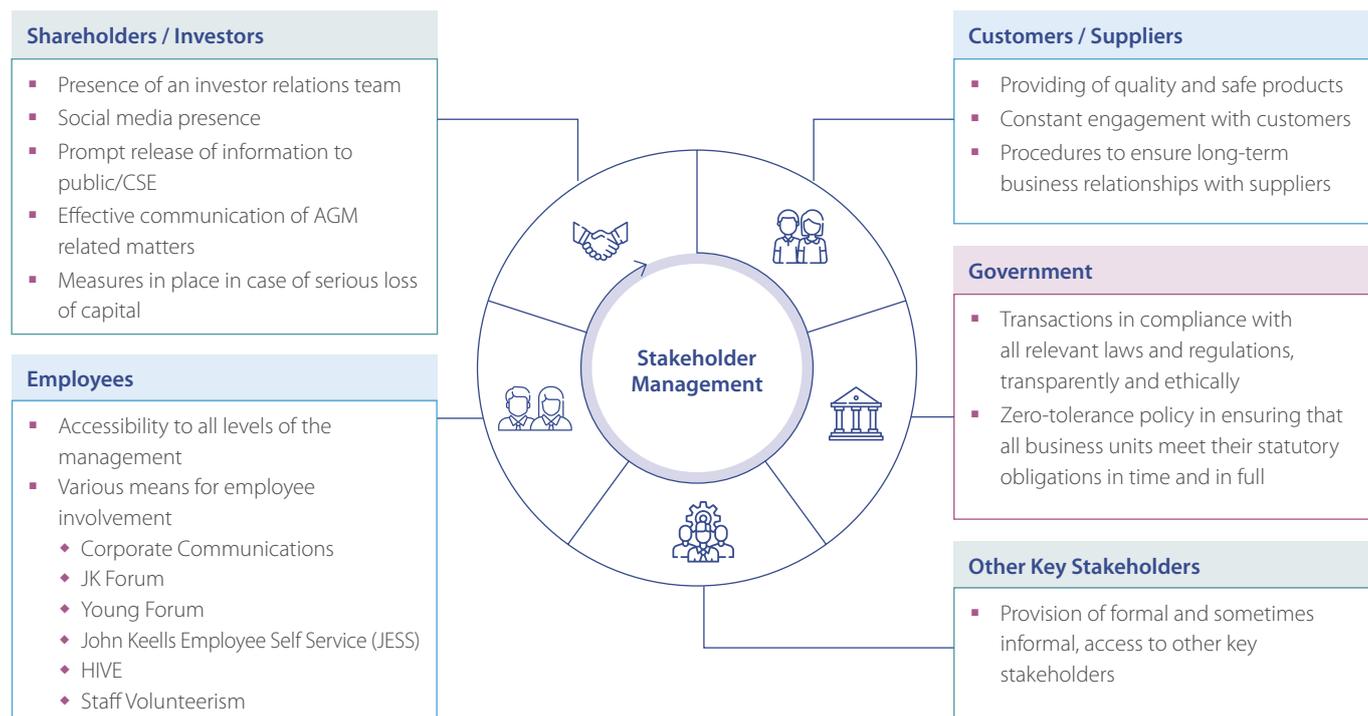
- Ability to manage tax efficiently by reducing the tax burden on the Group, within the ambit of applicable laws
- Manage tax risks and implications on Group reputation through adequate policies, proactive communication and defense
- Facilitate healthy relationships amongst stakeholders, Government and tax authorities
- Integrity of reported numbers and timely compliance

4.6 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.



4.6.1 Communication with Shareholders

The primary modes of communication between the Company and the shareholders are through the announcements made to the CSE, Annual Reports, Quarterly Reports and the Annual General Meeting (AGM).

4.6.1.1 Investor Relations

The Investor Relations team of the 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. Investor Presentations, which include an update on the latest financial results, are made available on the corporate website, to provide easier access and in-depth detail of the operational performance of the Group.

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, although individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions at all times.

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

All other material and price sensitive information about the Company 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 JKH. 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.

4.6.1.3 Annual General Meeting

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

The 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 provided to the shareholders along with the Annual Report within the specified time.
- Summary of procedures governing voting at the AGM are clearly communicated.
- Most Executive and Non-Executive Directors are made available to answer queries.
- The Chairman-CEO 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 withheld (abstained) are counted.

4.6.1.4 Serious Loss of Capital

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

4.7 Sustainability Governance

The John Keells 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.

As evident from the various frameworks in place, environmental issues such as climate change and resource scarcity, social issues such as the Group's labour practices, talent management, product safety and data security and Governance aspects such as board diversity, executive pay and business ethics are given significant emphasis within the Group. The Group's ESG framework is an amalgamation of the various frameworks within the Group. As such, the ESG disclosures across the Report are captured through the following 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, signaling 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 CODE OF CONDUCT

- Allegiance to the Company and the Group.
- Compliance with rules and regulations applying in the territories that the Group operates in.
- Conduct all businesses 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 JKH Code of Conduct are key elements of the reward and recognition schemes.

The Group Values continue to be consistently referred to by the Chairman-CEO, Presidents, Sector 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.



Group Values are found in the About Us section of the Annual Report.

CORPORATE GOVERNANCE COMMENTARY

5.2 Senior Independent Director

Considering the combined role of the Chairman-CEO, the presence of the Senior Independent Director is important in ensuring that no one person has unfettered decision-making powers, and that matters discussed at the Board level are done so in an environment which facilitates independent thought by individual Directors. The Senior Independent Director also acts as the independent party to whom concerns could be voiced on a confidential basis.

The Senior Independent Director meets with other Non-Executive Directors, without the presence of the Chairman-CEO, at least twice every year to evaluate the effectiveness of the Chairman-CEO and has regular meetings with the other Non-Executive Directors on matters relating to the effectiveness of the Board or the Board, as appropriate. The Senior Independent Director is also kept informed by the Ombudsperson of any matters in respect of the JKH Code of Conduct which has come to his attention.

Report of the Senior Independent Director

Independent Directors

A Cabraal
R Coomaraswamy (resigned with effect from 31 December 2019)
N Fonseka
A Omar
P Perera
H Wijayasuriya

All Independent Directors have been Directors for less than nine years from their date of first appointment. The independence of each Director has been established based on the information and declarations submitted by them. The Board has concluded that all Non-Executive Directors are independent.

Apart from unstructured and informal contacts, the Independent Directors had two formal meetings without Executive Directors being present, to discuss matters relevant to their responsibilities as Non-Executive Directors. These meetings concluded with a wrap up session with the Chairman-CEO, who provided responses to matters raised, or agreed to provide further information or clarification at Board meetings. The year under review was the first full year under the stewardship of the new Chairman-CEO and also saw several changes in key positions and overseeing the transition as well as the responses to the Easter Sunday attacks in April 2019 and the emergence of a pandemic threat in the last quarter of the financial year, which received the special attention of the Non-Executive Directors. Remuneration of Executive Directors was also determined by the non-Executive Directors.

The minutes of meetings of the Group Executive Committee (GEC) are circulated to the Non-Executive Directors to ensure a high degree of transparency and interaction between the Executive and Non-Executive members of the Board. The Non-Executive Directors are also kept advised on the progress of key ongoing projects and management responds to any clarifications sought.

The Ombudsperson has reported to me that no issues have been brought to his attention that indicate mismanagement, unfair treatment or justified discontent on the part of any employee or ex-employee during the financial year.

The Independent Directors thank the Chairman-CEO, Deputy Chairman/Group Finance Director, members of the Group Executive Committee, Sector Heads and members of the management team for their openness and co-operation on all matters where their input was sought by the Non-Executive Directors.



N Fonseka
Senior Independent Director

21 May 2020

5.3 Board Sub-Committees

The 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 Report.

5.4 Employee Participation in Assurance

The 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 Chairman-CEO 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, without the risk of reprisal.

- Skip level meetings
- Exit interviews
- Young Forum meetings
- 360-degree evaluation
- Employee surveys
- Monthly staff meetings
- Ombudsperson
- Access to Senior Independent Director
- 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 Presidents, Sector Heads and Chief Financial Officers of industry groups to confirm compliance with statutory and other regulatory procedures, and also to 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 Company'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 Sector Head and 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 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 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. However, there are certain industries where the domain is very operationally specific and requires an internal auditor in addition to the external auditor.

5.5.4.1 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-CEO or to the Senior Independent Director upon which the involvement duty of the Ombudsperson ceases.

CORPORATE GOVERNANCE COMMENTARY

On matters referred to him by the Ombudsperson, the Chairman-CEO or the Senior Independent Director, as the case may be, will place before the Board:

- i. the decision and the recommendations;
- ii. action taken based on the recommendations;
- iii. where the Chairman-CEO or the Senior Independent Director disagrees with any or all of the findings and or the recommendations 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-CEO or the Senior Independent Director is 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-CEO, 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-CEO 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

21 May 2020

6 REGULATORY AND ACCOUNTING BENCHMARKS

The Board, through the 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 Company, 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.

JKH and its subsidiaries are fully compliant with all the mandatory rules and regulations stipulated by the:

- Corporate Governance Listing Rules published by the CSE; and
- Companies Act No.7 of 2007

The Group has also given due consideration to the Best Practice on Corporate Governance Reporting guidelines jointly set out 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 JKH's conformance with standards and governance codes.

5.7 External Audit

Ernst & Young are the external auditors of the Company as well as many of the Group companies. The individual Group companies also employed KPMG Ford, Rhodes, Thornton & Co, Price Waterhouse Coopers, and Luthra and Luthra, India as external auditors. The appointment/re-appointment of these auditors was recommended by the individual Audit Committees to their respective Boards of Directors.



The audit fees paid by the Company and Group to its auditors are separately classified in the Notes to the Financial Statements of the Annual Report.

"The Group has also given due consideration to the Best Practice on Corporate Governance Reporting guidelines jointly set out 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."

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 (within the Report)
(i)	Names of persons who were Directors of the Entity	Yes	Corporate Governance Commentary
(ii)	Principal activities of the entity and its subsidiaries during the year, and any changes therein	Yes	Management Discussion and Analysis
(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	
(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	Share Information
(v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year	Yes	
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Yes	Risk, Opportunities and Internal Controls
(vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Yes	Sustainability Integration and Stakeholder Integration
(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	Share Information
(xi)	Financial ratios and market price information	Yes	
(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, rights issue and a private placement during the year	Yes	Share Information
(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	Yes	
(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	Corporate Governance Commentary/
(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	Note 44 of the Notes to the Financial Statements

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 (within the Report)
7.10 Compliance		
a./b./c. Compliance with Corporate Governance Rules	Yes	The Group is in compliance with the Corporate Governance Rules and any deviations are explained where applicable.
7.10.1 Non-Executive Directors (NED)		
a./b./c. At least 2 members or 1/3 of the Board, whichever is higher should be NEDs	Yes	5 out of 7 Board members are NEDs. The JKH Group is conscious of the need to maintain an appropriate mix of skills and experience on the Board and to refresh progressively its composition over time.

CORPORATE GOVERNANCE COMMENTARY

CSE Rule	Compliance Status	Reference (within the Report)	
7.10.2 Independent Directors			
a.	2 or 1/3 of NEDs, whichever is higher shall be 'independent'	Yes	All 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 6 Independent NEDs have submitted signed confirmation of their independence.
7.10.3 Disclosures relating to Directors			
a./b.	Board shall annually determine the independence or otherwise of NEDs	Yes	All Independent NEDs have submitted declarations as to their independence.
c.	A brief resume of each Director should be included in the annual report including the directors' experience	Yes	Corporate Governance Commentary
d.	Provide a resume of new Directors appointed to the Board along with details	Yes	Detailed resumes of the new Independent NEDs appointed during the financial year were submitted to the CSE. It is noted that there was an appointment to the Board, during the year under review.
7.10.4 Criteria for defining independence			
a. to h.	Requirements for meeting the criteria to be an Independent Director	Yes	Corporate Governance Commentary
7.10.5 Remuneration Committee			
a.1	Remuneration Committee shall comprise of NEDs, a majority of whom will be independent	Yes	The Human Resources and Compensation Committee (equivalent of the Remuneration Committee with a wider scope) 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 CEO and the Executive Directors	Yes	The remuneration of the Chairman-CEO and the Executive Directors is determined as per the remuneration principles of the Group and recommended by the Human Resources and Compensation Committee.
c.1	Names of Remuneration Committee members	Yes	Refer Board Committees section of the Annual Report.
c.2	Statement of Remuneration policy	Yes	Refer Director Remuneration section.
c.3	Aggregate remuneration paid to EDs and NEDs	Yes	Refer Director Remuneration section.
7.10.6 Audit Committee			
a.1	Audit Committee (AC) shall comprise of 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	CEO and CFO should attend AC meetings	Yes	The Chairman-CEO, Group Finance Director, Group Financial Controller and the External Auditors attended most parts of the AC meetings by invitation.
a.4	The Chairman of the AC or one member should be a member of a recognised professional accounting body	Yes	The Chairman of the AC is a member of a recognised professional accounting body.
b.	Functions of the AC	Yes	The AC carries out all the functions prescribed in this section
b.1	Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements in accordance with SLFRS/LKAS	Yes	The AC assists the Board in fulfilling its oversight responsibilities for the integrity of the financial statements of the Company and the Group
b.2	Overseeing the compliance with financial reporting requirements, information requirements as per laws and regulations	Yes	The AC has the overall responsibility for overseeing the preparation of financial statements in accordance with the laws and regulations of the country and also recommending to the Board, on the adoption of best accounting policies

CSE Rule		Compliance Status	Reference (within the Report)
b.3	Overseeing the process to ensure the internal and risk management controls, are adequate, to meet the requirements of the SLFRS/LKAS	Yes	The AC assesses the role and the effectiveness of the Group Business Process Review division which is largely responsible for internal control and risk management
b.4	Assessment of the independence and performance of the Entity's External Auditors	Yes	The AC assesses the external auditor's performance, qualifications and independence
b.5	Make recommendations to the Board pertaining to External Auditors	Yes	The Committee is responsible for recommending the appointment, re-appointment, removal of External Auditors and also providing recommendations on the remuneration and terms of Engagement.
c.1	Names of the Audit Committee members shall be disclosed	Yes	Refer Board Committees section.
c.2	Audit Committee shall make a determination of the independence of the external auditors	Yes	Refer Report of the Audit Committee.
c.3	Report on the manner in which Audit Committee carried out its functions.	Yes	Refer Report of the Audit Committee.

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

MANDATORY PROVISIONS - FULLY COMPLIANT

Rule		Compliance Status	Reference (within the Report)
(a)	Details pertaining to Non-Recurrent Related Party Transactions	Yes	Notes to the Financial Statements
(b)	Details pertaining to Recurrent Related Party Transactions	Yes	Notes to the Financial Statements
(c)	Report of the Related Party Transactions Review Committee	Yes	Refer Report of the Related Party Transactions Review Committee
(d)	Declaration by the Board of Directors 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

Statement of Compliance pertaining to Companies Act No. 7 of 2007

MANDATORY PROVISIONS - FULLY COMPLIANT

Rule		Compliance Status	Reference (within the Report)
168 (1) (a)	The nature of the business together with any change thereof	Yes	Group Directory
168 (1) (b)	Signed financial statements of the Group and the Company	Yes	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 the Board of Directors
168 (1) (f)	Remuneration and other benefits paid to Directors of the Company	Yes	Notes to the Financial Statements
168 (1) (g)	Corporate donations made by the Company	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	Group Directory
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	Report of the Audit Committee / Financial Statements
168 (1) (k)	Acknowledgement of the contents of this Report and signatures on behalf of the Board	Yes	Financial Statements / Annual Report of the Board of Directors

CORPORATE GOVERNANCE COMMENTARY

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 Company is directed, controlled and led by an effective Board that possess the skills, experience and knowledge and thus all Directors bring independent judgement on various subjects, particularly financial acumen.
- Combining the roles of Chairman and CEO is justified given the nature of the Group, at this juncture. The Chairman-CEO is appraised annually. Board Balance is maintained as the Code stipulates.
- Given the combined role of Chairman and CEO, the Group has a Senior Independent Director.
- 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 is responsible for determining the remuneration of Chairman-CEO and EDs.
- 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 4.5.1.

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 company carried out all business in accordance with regulations and applicable laws, equitably and fairly.
- The Company 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 Company 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 Company 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.
- This Report has been prepared in accordance with the GRI Standards: Core option and International <IR> Framework.

7.6 Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka

The Company is compliant with almost the full 2017 Code of Best Practice on Corporate Governance issued by the ICASL to the extent of business exigency and as required by the John Keells Group.



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