

# CORPORATE GOVERNANCE COMMENTARY



**John Keells Holdings PLC**  
Annual Report 2020/21

# CORPORATE GOVERNANCE COMMENTARY

The Group's robust and comprehensive corporate governance framework, endeavours to create an enabling environment for growth in a structured, predictable and sustainable manner. The Group's corporate governance philosophy is institutionalised across all its business units, and it is this philosophy that has continuously created value for all its stakeholders, notwithstanding the external environment and macro conditions.



## 1 EXECUTIVE SUMMARY

The Group's framework has its own set of internal policies, processes and structures aimed at 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, integrity and transparency.

The ensuing discussion comprises of the following key aspects:

- Significant components of the JKH Corporate Governance System
- Monitoring mechanisms in place to ensure strict compliance to the Group's Governance policy
- 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 Group's framework has its own set of internal policies, processes and structures aimed at meeting accepted best practice, in addition to the 'triggers' which ensure compliance with mandatory regulatory requirements.**

## 1.1 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)	Mandatory provisions - fully compliant
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, including directives and circulars	
Code of Best Practices 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
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 Policies

- 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, teleworking and agile working 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
- Gender policy
- 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 foreign exchange risk mitigation
- IT policies and procedures, including data protection, classification and security
- Group environmental and economic policies
- Whistleblower policy
- Policies on energy, emissions, water and waste management
- Policies on products and services

## 1.2 Key Governance Highlights for 2020/21

- Given the unprecedented challenges and operating conditions arising from the COVID-19 pandemic, in March 2020, the Group evaluated the resilience of its businesses under multiple scenarios, including extreme operating conditions. The businesses continued to proactively evaluate their operational performance and financial health during the year under review with many measures implemented from March 2020 onwards, including the following.
  - Adopted weekly dashboards, which cover financial and non-financial KPIs and revised targets, including monitoring of weekly cash and collections targets.
  - Established 'cash war rooms' and 'spend control towers' to critically review each spend item, prioritise payments, and impose clear reporting metrics. Although such initiatives were institutionalised primarily in response to the COVID-19 pandemic, the Group will continue to implement select measures to ensure an agile, efficient and productive business model.
  - A freeze on all non-essential capital expenditure.
  - Enforced stringent expense control measures, including a reduction in executive staff remuneration ranging from 5 to 60 per cent across the Group. Full remuneration was reinstated from July 2020 onwards, in tandem with the recovery in performance.
  - Group companies applied for relief measures, where relevant, extended by the Government and Central Bank which eased the financial position further.
- While the Group had a strong cash position and availability of banking facilities at the onset of the COVID-19 pandemic, continued focus was placed on ensuring balance sheet strength to support the investment pipeline of the Group. In June 2020, JKH entered into a ten-year financing agreement with the International Finance Corporation (IFC) for USD 175 million to support funding of the Holding Company's investment pipeline, marking IFC's largest investment to date in Sri Lanka.
  - Despite the increase in debt on account of the drawdown of this facility, it is noted that there was no impact on net debt as at 31 March 2021 since the cash balance was also retained at the Holding Company level.
  - During the year under review, the Group entered into an interest rate hedge for USD 100 million of the USD 175 million long-term financial facility as a prudent measure to mitigate the Group's exposure to interest rate fluctuations. In April 2021, the Group entered into a further hedge for USD 57 million of the remaining exposure of USD 75 million of the IFC loan.
- The Group introduced an improved and augmented Agile Working Policy with the intention of encouraging and unlocking new talent pools and adopting new ways of working, particularly in adapting to the evolving and dynamic environment. Whilst this policy facilitates current working arrangements with greater clarity, the primary purpose of this policy is to ensure a greater degree of employee involvement and flexibility in work arrangements, which will help increase retention and motivation of existing employees while expanding the talent pool and enabling greater participation of women in the workforce.
- With the onset of the COVID-19 pandemic, the Group transitioned to 'work from home' arrangements, where possible. The Group's robust technology and digital platforms in place at the time enabled a seamless transfer with minimal impact on business operations. In order to further strengthen the IT frameworks in place the Group continued with its migration to cloud-based identity management, consolidated the Security Operations Centre protocols, augmented data classification and management while migrating applications to the cloud and adopting digital platforms.
- To amplify the Group's emphasis on creating an inclusive, diverse and equitable work environment, the Group's first Diversity, Equity and Inclusion (DE&I) programme was established with the aim of increasing female participation in the workforce by implementing identified initiatives such as gender goals, employer supported childcare solutions, change agent networks and training and development. Some key initiatives in this regard included extension of maternity and paternity leave, introduction of adoption leave and institution of a Gender Policy. The Group also established a goal of increasing women participation up to 40 per cent by the end of 2025/26 [2020/21: 30 per cent], as a first step towards achieving gender parity in the employee cadre.
- The Group embarked on a journey of strengthening its internal audit and process review framework by further augmenting, through automation, its holistic approach to conducting internal audits and process reviews. This framework is expected to encourage auditors to report on value added recommendations, based on independent assessments and their knowledge of leading industry best practice and access to global knowledge bases. It will also help ascertain the degree of alignment between process controls and IT functional facilitation of these processes, expand its database of known types of fraud and maintain a central repository of data sets to undertake retrospective forensic data analysis and to steer audit scoping going forward.

 [Section 5.5 for further details.](#)

 [Leisure industry group review - page 66](#)

- Independence of the Group's whistleblower channels was maintained by the appointment of a new Ombudsperson effective 1 December 2020. This individual is an attorney-at-law by profession.

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- Given the faster than anticipated recovery momentum in business activity and the generation of cash profits by the Group, during the year under review, the Board declared a first, second and third interim dividend of Rs.0.50 per share each in July 2020, November 2020 and January 2021, respectively. A final dividend for 2020/21 of Rs.0.50 per share was declared to be paid in June 2021, reflecting the positive momentum of the performance of the businesses in the fourth quarter of 2020/21, notwithstanding the impacts of the current outbreak on the cash generation capability of the Group's diverse portfolio of businesses and the continued impacts of the Leisure businesses on the overall performance of the Group. The staggered payments were reflective of the cognisance of the Board of the potential for an uncertain business environment due to the pandemic, although improved business performance paved the way to continue with the declaration of dividends as witnessed.

## 1.3 Highlights of the 41<sup>st</sup> Annual General Meeting Held on 26 June 2020

- Mr. D. A. Cabraal, 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.
- Mr. A. N. Fonseka, who retired in terms of Article 84 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.

## 1.4 Outlook

The need for maintaining a well-grounded corporate governance framework has become vital in operating in an environment of dynamic corporate change and global volatility. A strong governance mechanism is pivotal in enhancing accountability to diverse stakeholders, ensuring corporate fair-mindedness and creating sustainable value. In this light, the Group will continue to stay abreast of governance best practice and assess its level of preparedness and its capability in meeting these evolving external challenges.

In the wake of corporate disintegrations, the pursuit of continuous improvement in governance, emphasis on environmental and social considerations and a call for increased accountability and transparency continue to influence and shape the role of board governance aspects. The primary areas of focus and challenges, amongst many others, being recurrently addressed by JKH are detailed in the ensuing section.

### 1.4.1 Board Diversity

JKH acknowledges the need for diversity in Boards and is conscious of the need to attract appropriately skilled Directors who reflect the values and requirements of its businesses and vision. Whilst the Group is of the view that diversity ranging across demographic attributes, backgrounds, experiences and social networks improve a Board's understanding of its vast pool of stakeholders, providing diverse connections with the external environment and aiding the Group in addressing stakeholders' claims in a more responsive manner, JKH is also conscious of the need to maintain a strong culture of meritocracy, ensuring that Board diversity does not come at the expense of Board effectiveness. In this regard, every effort will be made to attract suitably qualified personnel from diverse demographics and backgrounds.

In furtherance of this initiatives, and to amplify the Group's emphasis on creating an inclusive, diverse and equitable work environment, headway was made on the gender diversity front, with four women being appointed to the different Boards across Group companies during the year under review.

### 1.4.2 Board Independence

There is increased emphasis on board independence by stakeholders, stock exchanges and regulatory bodies worldwide. In order for a Board to be effective, JKH is of the view that companies must take steps, both in their structures and in their nominating procedures, to ensure fostering of independent decision-making and mitigating potential conflicts of interest which may arise.

The criteria for defining independence of boards vary significantly across countries. JKH is of the view that the intended vision of achieving improved governance and higher independence can be achieved through various checks and balances, whilst not compromising on the underlying operating model of a corporate. These checks and balances may entail, among others, establishment of various assurance mechanisms and the use of systematic and comprehensive board evaluation processes and independent director led engagement. To this end, JKH will continue to place emphasis on further augmenting the Board's independence whilst striking a balance with the Group's operating model, which addresses the complexities and intricacies of a diversified conglomerate setting.

Further to the public consultation in 2019, the Securities and Exchange Commission of Sri Lanka (SEC) published a new public consultation in April 2021 seeking views to strengthen corporate governance rules of listed entities. This entailed, amongst others, a proposal to segregate the roles of the Chairperson and CEO being performed by the same person. The SEC has indicated that any measures towards the segregation of roles will only be taken post detailed discussion and broad consensus amongst the relevant stakeholders. The Group is of the view that the segregation of the roles of Chairman and CEO should be a voluntary compliance requirement, especially if concerns associated with the combined role are counter-balanced by increased independence and transparency vis-à-vis appointment of a senior independent director, having a majority of independent directors, inclusion of an independent director led committee for director nominations and a well-defined process for the appointment of directors. Studies have not clearly proven that segregation of the roles lead to better performance or governance, particularly if the counterbalances stated before are in place. Another key aspect which needs to be considered is the local context and an understanding of the operating models and corporate structures when implementing such changes. JKH, being a diversified conglomerate, has complexities which require a multi-faceted understanding of each of its businesses which ideally requires an executive role.

### 1.4.3 Increasing emphasis on environmental, social and governance (ESG) aspects


ESG analysis and investing continue to gain traction amongst Governments, investment professionals and high net worth investors, given the aim of reducing negligent and irresponsible corporate behaviour that may have an adverse impact on the environment, harm human rights and foster corruption and bribery, among others, and disintegrate the corporate in the long-term. The unprecedented nature of the COVID-19 pandemic and its impacts globally have accelerated and intensified such discussions on the interlinkages between sustainability considerations and financial performance.

JKH is of the view that emphasis on ESG fosters a 360-degree analysis of performance and enables a sustainable business model, which can derive value to all stakeholders. Various measures have been, and are, in place, to ensure a holistic view of performance including managing scarce natural resources, enhancing the well-being of all stakeholders and ensuring effective governance mechanisms. Such metrics are revisited regularly during decision-making. Initiatives such as the launch of Sustainability Goals 2025, roll out of the Gender Policy and strengthening of internal controls are implemented with a view of ensuring a strong ESG framework. The Group will stay abreast of developments in this regard and continue to integrate ESG elements with business strategy, operations and in reporting.

### 1.4.4 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.

 Refer Section 5.5.2 for initiatives during the year aimed at strengthening internal controls.

### 1.4.5 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 designed in a manner, and adequate, to deal with a potential breach. Data protection and cyber security are regularly addressed during the Risk Management and Audit Committee meetings and periodically discussed at a Board level.

### 1.4.6 Data Protection, Information Management and Adoption

The presence of continuously evolving IT infrastructure and platforms to meet requirements of day-to-day business, augured well for the Group, particularly given restrictions in movement and social distancing measures in light of the COVID-19 pandemic. The Group witnessed an acceleration of digitisation and better user adoption. Despite this, adoption of such systems and features remain at a relatively early stage across the Group and is a key focus area for the Group.

Given the emergence of regulations such as European Union General Data Protection Regulation (GDPR) and the proposed Sri Lankan data protection legislation, data security, integrity and information management will be pivotal. In addition to this, the Group's initiatives on advanced data analytics also necessitate an established governance framework to manage the flow of data. 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.

### 1.4.7 Greater Employee Involvement in Governance

Whilst all necessary compliance and assurance frameworks are believed to be in place, JKH recognises the pivotal role played by employees in reinforcing an effective governance system across the Group. JKH will continue to encourage greater employee participation through:

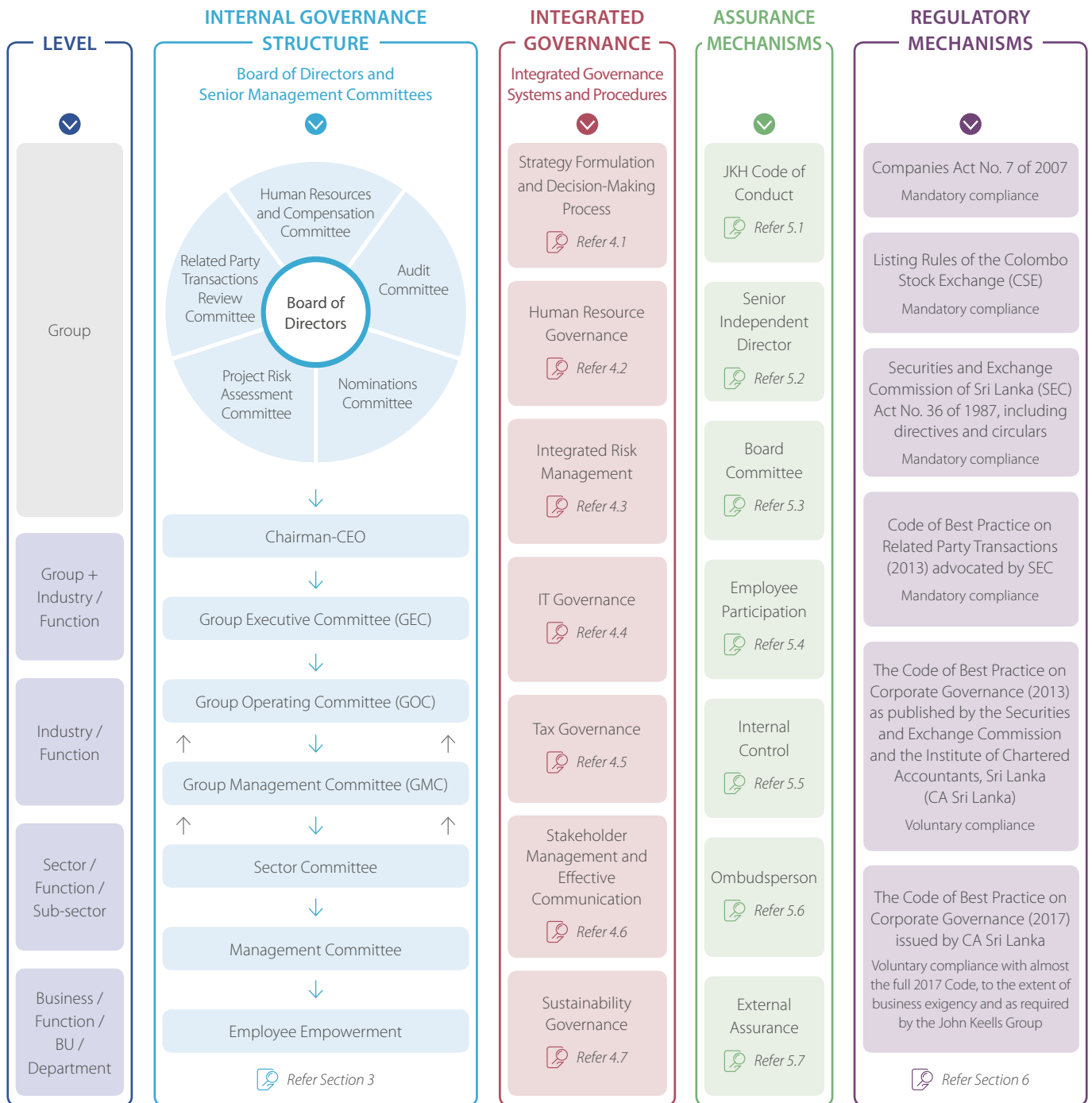
- a further strengthened continuous performance management process, which envisages continuous feedback and enhanced engagement via the newly implemented employee information systems.
- engagement and empowerment via greater delegation of authority.
- increased communication and collaboration.
- adoption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

### Key Governance Disclosures

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The Governance System	2
The Board of Directors	3.1
Audit Committee	3.2.1
Human Resources and Compensation Committee	3.2.2
Nominations Committee	3.2.3
Related Party Transactions Review Committee	3.2.4
Project Risk Assessment Committee	3.2.5
Chairman-Chief Executive Officer	3.3
Group Executive Committee and other Management Committees	3.4
Strategy formulation and decision-making process	4.1
Human resource governance	4.2
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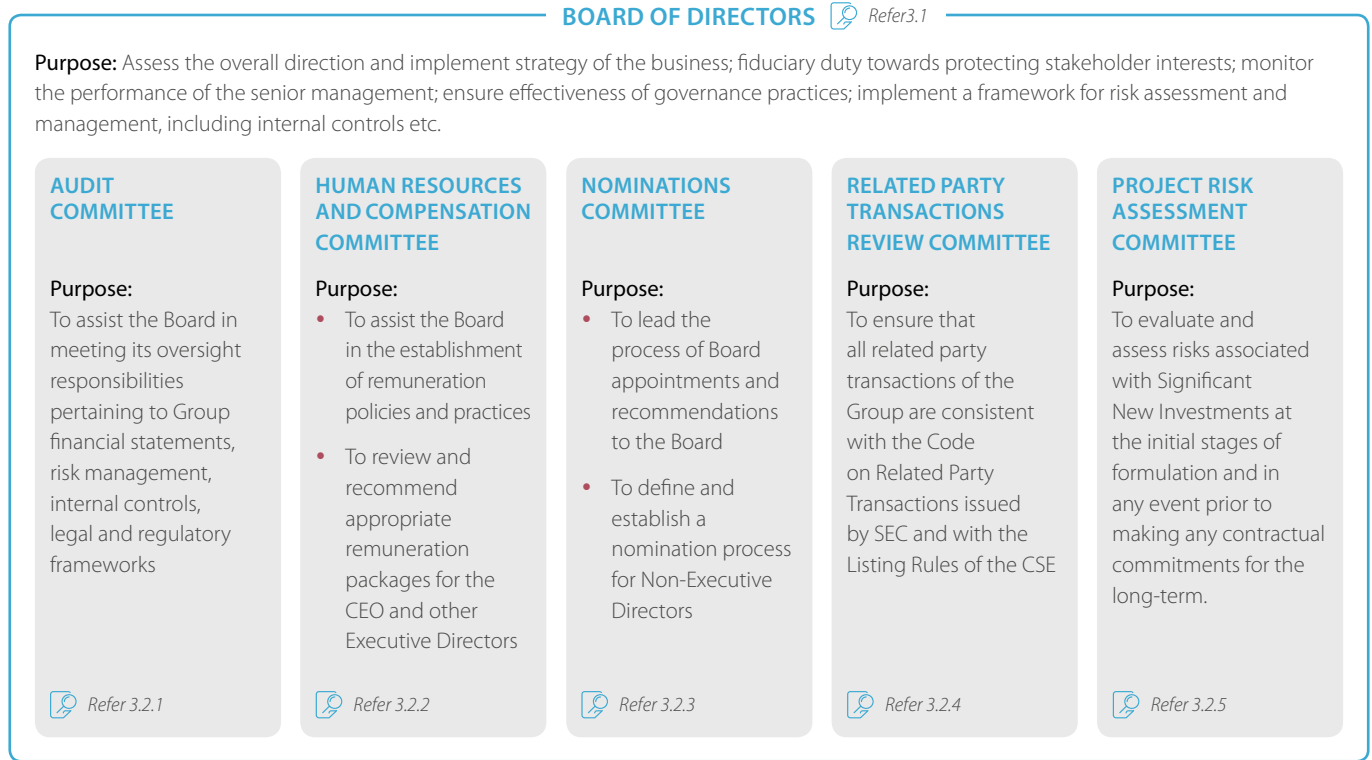
## 2 THE CORPORATE GOVERNANCE SYSTEM



- All 5 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.
- The GOC acts as the binding agent to the various businesses within the Group towards identifying and extracting Group synergies.
- Due to space constraints only the key components are depicted in the diagrams.

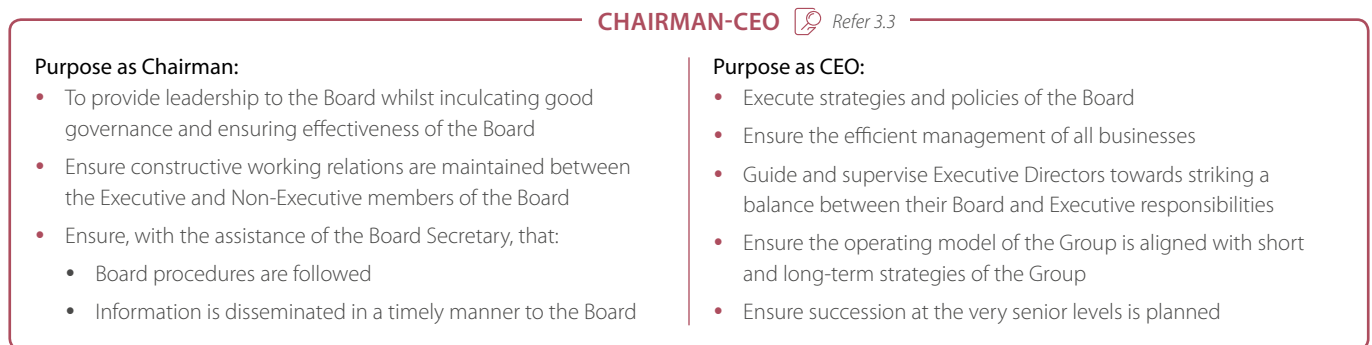
### 3 INTERNAL GOVERNANCE STRUCTURE

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:



↑ Leadership and control

↓ Accountability through reporting obligations



↑ Reporting obligations

↑ Operations Management Performance feedback

↓ Delegated authority



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, tax stewardship 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:

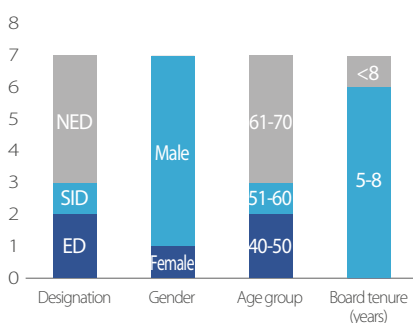
- Providing direction and guidance to the Group in the formulation of sustainable, high-level, medium, and long-term strategies which are aimed at promoting the long-term success of the Group.
- Reviewing and approving annual plans and long-term business plans.
- Tracking actual progress against plans.
- Ensuring business is conducted with due consideration on environmental, social and governance (ESG) factors.
- 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, including concerns on ethics, bribery and corruption.
- 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/hybrid securities.
- Ensuring all related party transactions are compliant with statutory obligations.

### 3.1.2 Board Composition

As at 24 May 2021, the Board comprised of 7 Directors, with 5 of them being Non-Executive Independent Directors.

Non-Executive Independent Directors add imperative value to strategic discussions and decision-making, whilst enhancing fair-mindedness. 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, 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.

**Non-Executive Independent Directors add imperative value to strategic discussions and decision-making, whilst enhancing fair-mindedness.**

### 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, environmental and social strategies of the Group.

Additionally, the newly appointed Directors are granted access to relevant parts of the business and are given 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 9 Board meetings. All 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. Considering the unprecedented impacts of the pandemic on Group businesses, the Board met more frequently than usual to discuss matters in a timely manner given the volatile and dynamic situation, enabling greater deliberation and prompt decision-making required in these circumstances.

The attendance at the Board meetings held during the financial year 2020/21 is given below:

Name	6/Apr/2020*	14/May/2020	21/May/2020	29/July/2020	7/Sep/2020	30/Sep/2020	5/Nov/2020	27/Jan/2021	26/Feb/2021	Eligibility	Attended
K. Balendra	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	9
G. Cooray	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	9
N. Fonseka	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	9
A. Cabraal	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	9
P. Perera	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	9
H. Wijayasuriya	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	9
A. Omar	✓	✓	✓	✓	✓	✓	✓	✓	✓	9	9

\* Supplemental Extraordinary Board meeting to the Extraordinary Board meeting held on 31 March 2020, to 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 2020/21 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. Added emphasis was also placed on business performance in lieu of the challenges stemming from the COVID-19 pandemic.

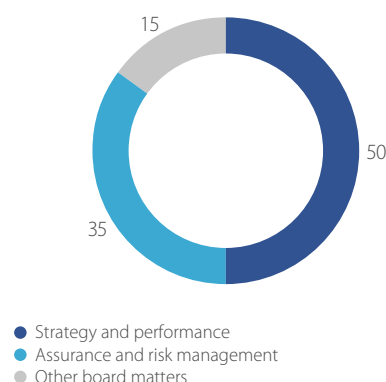
#### 3.1.8.4 Board Secretary

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 fulfilment 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.

**Considering the unprecedented impacts of the pandemic on Group businesses, the Board met more frequently than usual to discuss matters in a timely manner given the volatile and dynamic situation, enabling greater deliberation and prompt decision-making required in these circumstances.**

# CORPORATE GOVERNANCE COMMENTARY

## 3.1.10 Board Evaluation

The Board conducted its annual Board performance appraisal for the financial year 2020/21. 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:

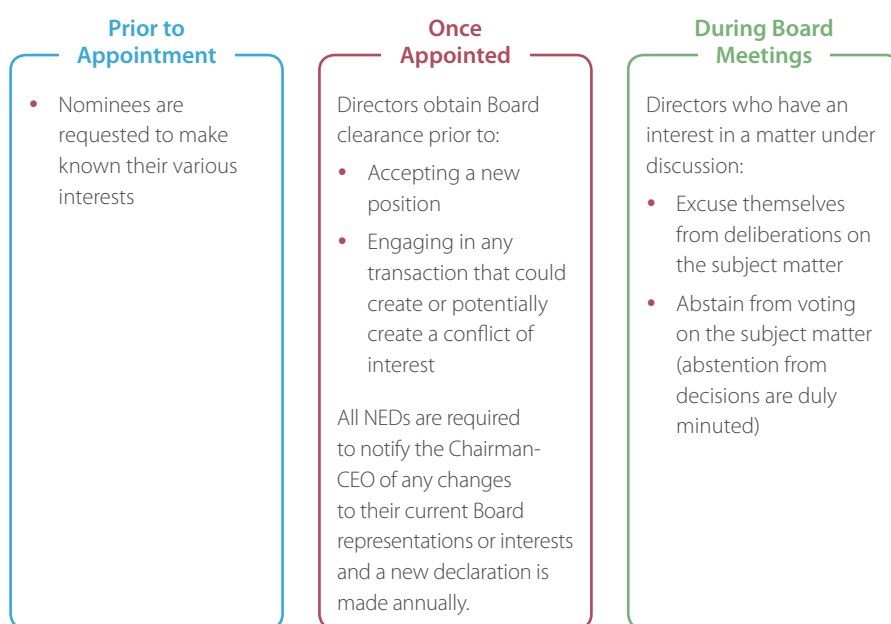
- Role clarity and effective discharge of responsibilities
- People mix and structures
- Systems and procedures
- Quality of participation
- Board image

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.



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
Shareholding carrying not less than 10 per cent of voting rights	None of the individual EDs <sup>1</sup> or NED/IDs <sup>1</sup> shareholding exceeds 1 per cent
Director of another company*	None of the NED/IDs are Directors of another related party company, as defined
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
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
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
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
Is employed, has a material business relationship and/or significant shareholding in other companies*. 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	Nil
P Perera	Nil	Nil
H Wijayasuriya	Nil	Dialog Axiata 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. The Human Resources and Compensation Committee operates in conformity with applicable rules and regulations.

 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.

Excluding ESOPs granted, the total aggregate remuneration paid to Executive Directors for the year under review was Rs.104 million [2019/20: Rs.119 million] of which Rs.45 million [2019/20: Rs.39 million] was the variable portion linked to the performance benchmark as described above and Rs.59 million [2019/20: Rs.80 million] was the fixed remuneration.

#### 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 Rs.11 million [2019/20: Rs.18 million].

### 3.1.12.3 Compensation for Early Termination

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

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

## 3.2 Board Sub-Committees

The Board has delegated 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:

- Audit Committee
- Human Resources and Compensation Committee
- Nominations Committee
- Related Party Transactions Review Committee
- Project Risk Assessment Committee

**Members of these Sub-Committees focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise.**

# 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 2021	Audit Committee	Human Resources and Compensation Committee	Nominations Committee	Related Party Transactions Review Committee	Project Risk Assessment Committee
<b>Executive</b>					
K Balendra – Chairman-CEO			■		■
G Cooray – Deputy Chairman / Group Finance Director					■
<b>Senior Independent Non-Executive</b>					
N Fonseka	■			■	
<b>Independent Non-Executive</b>					
A Cabraal	■	■		■	
A Omar		■	■		
P Perera	■		■	■	■
H Wijayasuriya		■	■		■

■ Committee Member  
■ Committee Chair

## 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 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 robustness and effectiveness in monitoring and controlling risks.
- Review the adequacy and effectiveness of 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.

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 members of the Audit Committee are 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 six times during the financial year. 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 2020. 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 any 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.

In the context of enhanced health and safety measures, remote working arrangements and a higher level of digital transactions that became necessary during the year under review due to the COVID-19 pandemic, the Committee paid special attention to the risk mitigation measures introduced by management and obtained management assurances in this regard.

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 supporting governance reporting.

The Group BPR division has institutionalised a multi-pronged approach to Internal Audits and process reviews, to foster synergy, collaboration efficiencies between components that deliver governance and assurance and related services, whilst focusing on continuous improvement through rigorous alignment of process, technology, and people, in optimising the interplay between related components, invoked to handle transactional events for better outcomes.

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 whistleblowing 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.

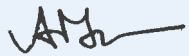
The External Auditors kept the Committee advised on an ongoing basis regarding matters of significance that were pending resolution. Before the conclusion of the Audit, the Committee met with the External Auditors and management to discuss all audit issues and to agree on their treatment. This included 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 2020/2021 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 2022, subject to approval by the shareholders at the Annual General Meeting.



**N Fonseka**  
Chairman of the Audit Committee  
24 May 2021

### 3.2.1.2 Audit Committee meeting attendance

No of meetings – 06

	Eligible to Attend	Attended
A Cabraal	6	6
N Fonseka	6	6
P Perera	6	6
<b>By Invitation</b>		
K Balendra	6	6
G Cooray	6	6

### 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 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 practices and performance-based pay plans for the Group.
- Determine and agree with the Board a framework for the remuneration of the 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 is not 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 evaluation of the members of the Group Executive Committee (GEC) 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.

In light of the COVID-19 impact on the businesses and its people, the Group developed and implemented a Working Arrangement Protocol which set out the working practices to be followed by Group employees in terms of maintaining their health and safety. The Group also implemented a new Agile Working Policy, with the identification of agile roles across all sectors. To mitigate the financial impact of the pandemic on the Group, the employees and the members of the GEC were subject to salary reductions for a limited period of time.

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 approvals given by the Board, based on discussions conducted between the Committee and the Management.



**A Cabraal**  
Chairman of the Human Resources and Compensation Committee  
20 May 2021

### 3.2.2.2 Human Resources and Compensation Committee meeting attendance

No of meetings – 01

	Eligible to Attend	Attended
A Cabraal	1	1
A Omar	1	1
H Wijayasuriya	1	1
<b>By Invitation</b>		
K Balendra	1	1
G Cooray	1	1

As noted earlier, considering the unprecedented impacts of the pandemic on Group businesses, the Board met more frequently than usual to discuss matters in a timely manner given the volatile and dynamic situation, enabling greater deliberation and prompt decision-making required in these circumstances. Most discussions under the purview of the Human Resources and Compensation Committee Sub-Committee were also deliberated at a Board level.

### 3.2.3.2 Nominations Committee meeting attendance

No of meetings – 02

	Eligible to Attend	Attended
K Balendra	2	2
A Omar	2	2
P Perera	2	2
H Wijayasuriya	2	2

### 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 Secretary to the Board is the Secretary of the Committee.



#### SCOPE

- Assess the 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 clear expectations 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 the Chairperson and Executive Directors is a collective decision of the Board.

#### 3.2.3.1 Report of the Nominations Committee

The Nominations Committee as at 31 March 2021, consisted of the following:

A Omar (Chairman)  
K Balendra  
P Perera  
H Wijayasuriya

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

- Recommend to the Board the process of selecting the Chairman and Deputy Chairman.
- 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:

Ceylon Cold Stores PLC	Mr. Kaminda Charitha Subasinghe
	Ms. Nelindra Fernando
Keells Food Products PLC	Ms. Nelindra Fernando
John Keells PLC	Mr. Ahamed Zafir Hashim
	Ms. Kamani Devika Weerasinghe
Tea Smallholder Factories PLC	Mr. Ahamed Zafir Hashim
Trans Asia Hotels PLC	Mr. Suresh Rajendra
	Mr. Changa Lashantha Poojitha Gunawardane
Asian Hotels and Properties PLC	Mr. Changa Lashantha Poojitha Gunawardane
John Keells Hotels PLC	Mr. Suresh Rajendra
	Mr. Mikael Roland Svensson
Union Assurance PLC	Mr. Daminda Prabhath Gamlath
	Mr. Warnage Malinga De Fonseka Arakularatne

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  
20 May 2021

# 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 – 04

	Eligible to Attend	Attended
A Cabraal	4	4
N Fonseka	4	4
P Perera	4	4
<b>By Invitation</b>		
G Cooray	4	4
K Balendra	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 (Chairperson)  
A Cabraal  
N Fonseka

The Chairman, 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. Recurrent RPTs were reviewed annually by the Committee. Furthermore, guidelines were introduced to facilitate requisite disclosures and assurances by senior management of the aforementioned listed companies, in relation to Recurrent RPTs so as to validate compliance with sec 9.5(a) of the listing rules and thus exclusion from review and pre-approval by the Committee.

Other significant transactions of non-listed subsidiaries were also 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. Information on the attendance at these meetings by the members of the Committee is given alongside. 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

20 May 2021



### 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 convene only 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 (Chairman)  
K Balendra  
G Cooray  
P Perera

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 enhanced illumination of Risk perspectives with respect to large-scale new investments, and also assists the Board in assessing the potential impact of risks associated with such investments. Investments which are referred to the Committee are those which exceed a board-agreed threshold in terms of quantum of investment and/or potential impact to the Group. The Committee accordingly provides early-stage recommendations to the Board with respect to the extent of risk and adequacy of mitigation strategies.

During the year under review, given the unprecedented impact of the COVID-19 pandemic on Group businesses, the Board met more frequently than usual. The increased frequency of board meetings provided the opportunity for discussions related to investments and risk assessments to be conducted within Board Meeting agendas. As such, the Committee did not have a requirement to convene separately, during the year under review.

**H Wijayasuriya**  
Chairman of the Project Risk Assessment Committee  
20 May 2021

### 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 roles of the Chairman-CEO was established after rigorous evaluation and debate, internally and externally. The appropriateness of continuing with the combined role is revisited and rigorously evaluated periodically - the Board continues to maintain 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 macroeconomic conditions which requires the leadership to be nimble and agile. These discussions are supported by international best practice accessed through consultancy services and experts.

**The appropriateness in combining the roles of the Chairman-CEO was established after rigorous evaluation and debate, internally and externally.**

# 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's (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.
- 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.

- 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 once 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 24 May 2021, 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.

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, 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 is also based on the Group's performance assessed 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

 Refer GEC Profiles section of the Corporate Website for more details.

The GEC meets twice a month, in addition to the meetings that are scheduled as necessitated by the requirements of the Group. During the year, the frequency of GEC meetings increased significantly considering the unprecedented circumstances which prevailed throughout the year.

### 3.4.2 Group Operating Committee (GOC)

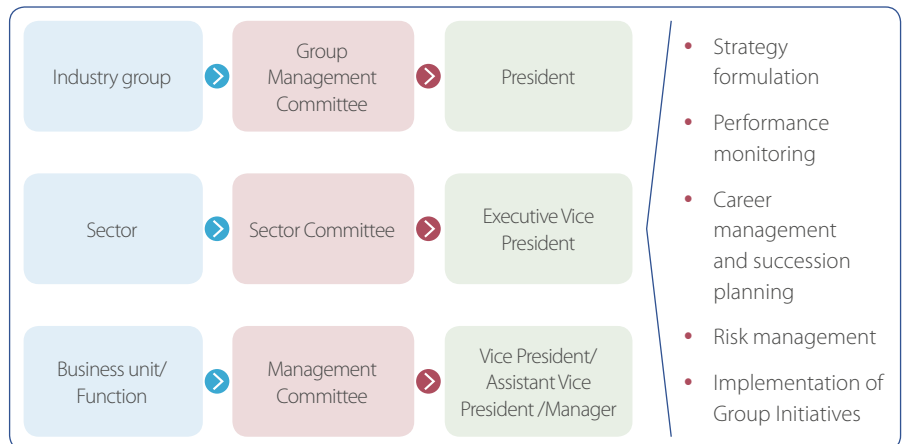
As at 24 May 2021, the 19-member GOC consisted of the Chairman-CEO, the Deputy Chairman/Group Finance Director, the Presidents and the Executive Vice Presidents in charge of sectors and the finance functions of the industry groups. The GOC provided a forum to share learnings, and identify synergies, 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 Corporate Website 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.



### 3.5 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 instil 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.

The Group prioritises 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. Focus on health and safety was emphasised throughout the year under review, in view of the pandemic, with the Group undertaking voluntary PCR testing, provision of personal protection equipment for employees and implementing many processes to limit contact. The Group strives to incorporate many policies, where relevant, in the supply chain contracts entered into by the Group.

## 4 INTEGRATED GOVERNANCE SYSTEMS AND PROCEDURES

Listed below are the main governance systems and procedures of the 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

# CORPORATE GOVERNANCE COMMENTARY

## 4.1 Strategy Formulation and Decision-Making Processes

### 4.1.1 Strategy Mapping

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

This exercise entails the following key aspects, among others.

- Progress and deviation report of the strategies formed.
- Competitor analysis and competitive positioning.
- Analysis of key risks and opportunities.
- Management of stakeholders such as suppliers and customers.
- Value enhancement through initiatives centred on the various forms of Capital under an integrated reporting framework.

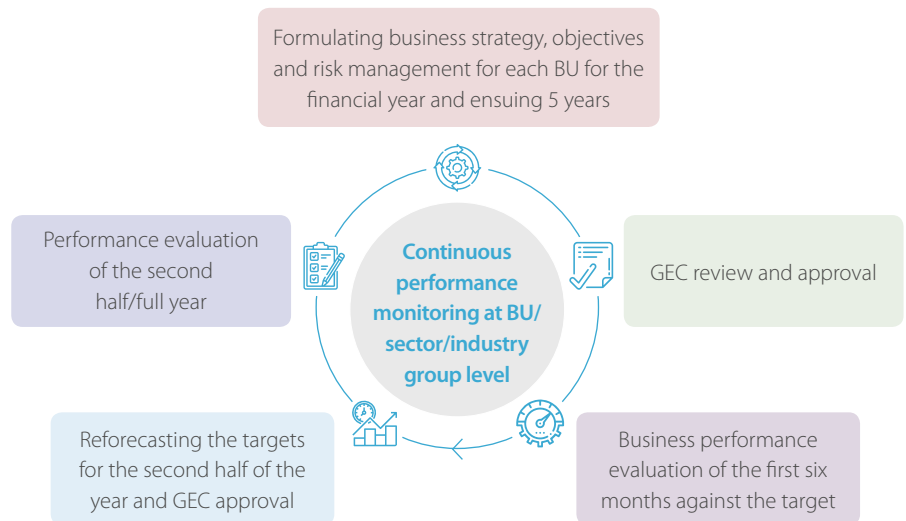
The strategies of the various business units, operating in diverse industries and markets, will always revolve around the Group strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

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

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



**Based on thresholds of the investment quantum, the Project Risk Assessment Committee will review and assess risks associated with such investments and the mitigatory plans thereto, if mitigation is possible, and identify risks that cannot be mitigated on behalf of the Board.**

#### 4.1.3 Project Approval Process

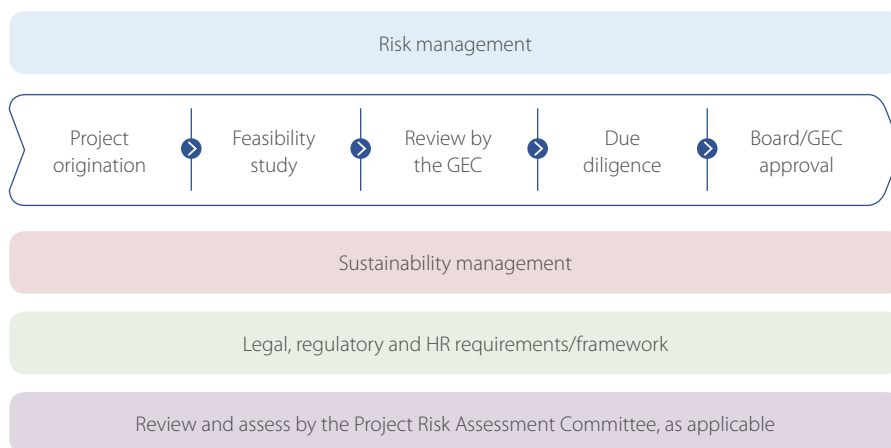
Projects undertaken at the Group follow a detailed feasibility report covering key business considerations under multiple scenarios, within a framework of sustainability. The feasibility stage is not restricted to a financial feasibility and encompasses a wider scope of work covering risk management, 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. Based on thresholds of the investment quantum, the Project Risk Assessment Committee will review and assess risks associated with such investments and the mitigatory plans thereto, if mitigation is possible, and identify risks that cannot be mitigated on behalf of the Board. The aim of this intervention is to ensure alignment with the interest of various stakeholders and to 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. 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) manages the entire life cycle of the employee from onboarding to performance management, succession planning, compensation, learning and development, through to offboarding.

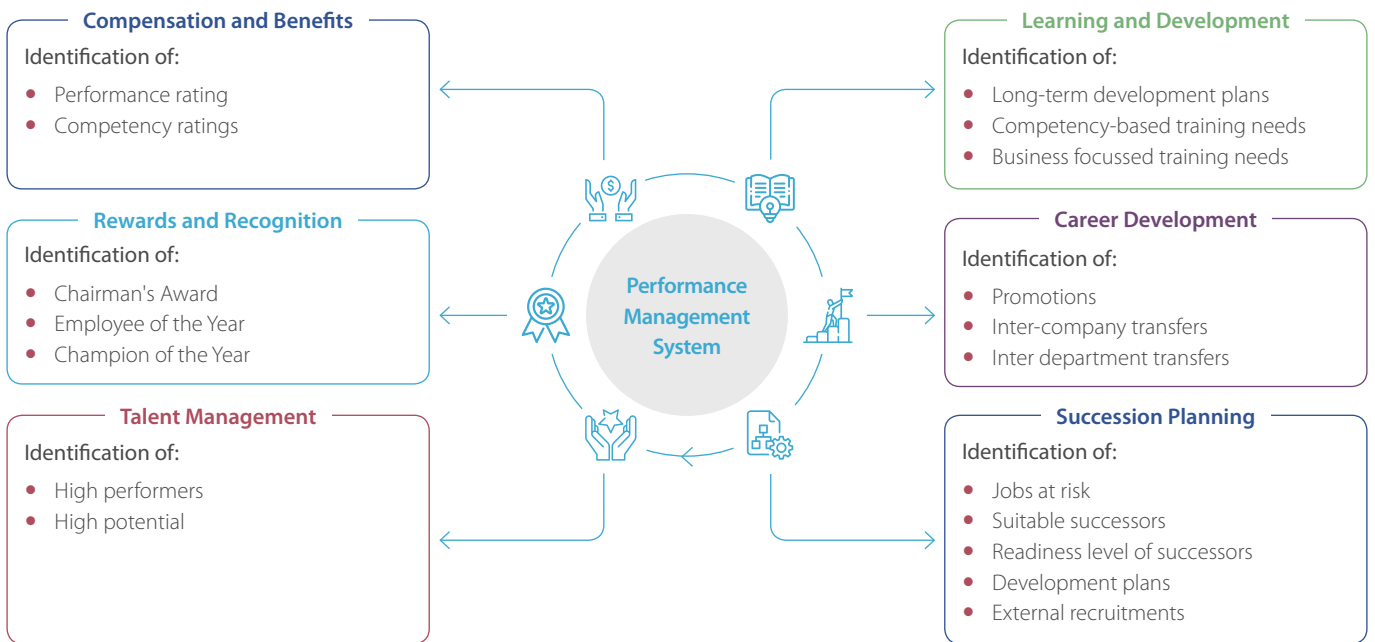
**The Group human resource governance framework is designed in a manner that enables high accessibility by any employee to every level of management.**

### 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:

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

### 4.2.2.1 Equity Sharing

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 Controls section and Notes to the Financial Statements of the Annual Report and the Risk, Opportunities and Internal Controls section of the corporate website 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 Steering Committee to the Group IT Operation Committee with well-defined roles and responsibilities at a Group, industry group as well as 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 9001:2015, COSO (Committee of Sponsoring Organisations of the Treadway Commission)/BCP (Business Continuity Planning), ITIL (Information Technology Infrastructure Library), NIST (National Institute of Standards and Technology) in providing a best of breed framework for IT governance, risk and compliance management.

The Group is in the process of shifting from 'Business/IT recovery and continuity' to 'Business/IT resiliency' with the aggressive adaptation of a hybrid-cloud strategy. Recovery as well as resiliency measures are tested periodically, annually at minimum, across all critical applications and services, which presents the Group with the opportunity to test and improve services standards whilst also enabling rectification of any limitations.

With the onset of the COVID-19 pandemic, the Group transitioned to a WFH policy due to the technology landscape and frameworks that the Group had in place at the time, which enabled a seamless transfer. The Group continued with its key strategies initiatives as noted below.

- Initiatives aimed at further strengthening its foundation – migration to cloud-based identity management; consolidation of the Security Operations Centre protocols; augmentation of data classification and management.
- Modernisation and upgrade of Group-wide and line-of-business applications.
- Migration of applications to the cloud and native software as a service (SaaS) solution, where applicable.
- Adoption of platforms such as Smart Office, Smart Retail, Smart Home, Smart Factories, Automation, Advanced Analytics, etc.

In 2019/20, the Group implemented a comprehensive data classification and rights management framework throughout all its business units with a continued focus on driving adoption and creating better awareness during the last year. This framework, designed to improve data stewardship and management of access to sensitive information across the Group, ensures that all data are appropriately classified, documented and stored effectively. The framework, supported by dedicated data owners and data stewards to ensure data privacy, data quality and rights management, was augmented during the year under review.

#### 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-structured 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 defence.
- Facilitate healthy relationships amongst stakeholders, Government and tax authorities.
- Ensuing integrity of reported numbers and timely compliance.



Please refer the Sustainability Integration, Stakeholder Relationships and Materiality section of the Annual Report for a detailed discussion.

## 4.6 Stakeholder Management and Effective Communication

Following are the key stakeholder management methodologies adopted by the Group.



### 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 2021 and at the end of each quarter of the financial year 2020/21.

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. Annual Reports are made available to shareholders 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 made available 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.

Refer the Sustainability Integration, Stakeholder Management and Materiality section on the Corporate Website for further details.

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, signalling the need for quick corrective action, and quick redress when necessary. These mechanisms also act as 'safety nets' and internal checks in the Governance system. The Group also conducts internal and external audits on a periodic basis, annually at minimum.

### 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 instil these values in the hearts and DNA of the employee.

 *Group Values are found in the Business Model 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

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 one virtual meeting without Executive Directors participating, 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 COVID-19 pandemic had a very significant adverse impact on the operations of the Group as described in greater detail in the Annual Report and managing the associated risks and the fallout 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

24 May 2021

## 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.

The Group has in place an integrated fraud deterrent and investigation framework which enables 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. The digital system for quarterly financial and operational information management implemented last year continues to perform as per expectations facilitating data capturing for compliance reporting, providing a sustainable and structured mechanism to enable top-down and bottom-up stakeholder engagement, and tracking the progression of how the compliance posture at entity level has evolved, among others. The Forestpin 'Internal Audit Scoping' continues to be used to identify areas for process optimisation, strengthening controls and in feedback reporting to reinforce governance (management) and assurance structures.

#### INITIATIVES TO STRENGTHEN INTERNAL CONTROLS



The Group embarked on a journey of strengthening its internal audit and process review framework by further augmenting, through automation, its holistic approach to internal audits and process reviews. Aimed at fostering better synergy and alignment of process, technology, and people, in optimising the interplay between these components, this framework is expected to:

- Operationalise a structured and integrated multimodal process review framework that encourages auditors to report on value added recommendations, based on independent assessment of fit within the applicable domain of use cases, industry best practice and access to global knowledge bases.
- Ascertain the degree of alignment and enforcement between process controls and information technology functions, particularly in handling the domain of use-cases.
- Expand the knowledge base of known types of frauds for which process and system controls have been evaluated, and progressively engage in continuous improvement and feedback initiatives based on cumulative learnings.
- Maintenance of a central repository of data sets associated with each process to undertake retrospective forensic data analysis, as well as the use of the data as a prospective tool as input to steer audit scoping.

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. No material conflicts were reported during the year.

### 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'.

# CORPORATE GOVERNANCE COMMENTARY

## 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.

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.

Independence of this external whistle-blower channel was maintained by the appointment of a new Ombudsperson effective 1 December 2020. This individual is an attorney-at-law by profession.



### 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

31 March 2021

## 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.*

## 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 set out by CA Sri Lanka 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.

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

### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule		Compliance Status	Reference (within the JKH Annual 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, Stakeholder Engagement and Materiality
(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/Note 44 of the Notes to the Financial Statements
(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	

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

### MANDATORY PROVISIONS - FULLY COMPLIANT

CSE Rule	Compliance Status	JKH Action / Reference (within the JKH Annual Report)
<b>7.10 Compliance</b>		
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.
<b>7.10.1 Non-Executive Directors (NED)</b>		
a./b./c. At least 2 members or 1/3 of the Board, whichever is higher should be NEDs	Yes	5 out of 7 Board members are NEDs. The 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	JKH Action / Reference (within the JKH Annual Report)
<b>7.10.2 Independent Directors</b>		
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 5 Independent NEDs have submitted signed confirmation of their independence.
<b>7.10.3 Disclosures relating to Directors</b>		
a./b. Board shall annually determine the independence or otherwise of NEDs	Yes	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.
<b>7.10.4 Criteria for defining independence</b>		
a. to h. Requirements for meeting the criteria to be an Independent Director	Yes	Corporate Governance Commentary
<b>7.10.5 Remuneration Committee</b>		
a.1 Remuneration Committee shall comprise of NEDs, a majority of whom will be independent	Yes	The Human Resources and Compensation Committee (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.
<b>7.10.6 Audit Committee</b>		
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	JKH Action / Reference (within the JKH Annual 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.

### 7.3 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 JKH Annual 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

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

#### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule		Compliance Status	Reference (within the JKH Annual 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 Resources 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.
- The 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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