

**CODE OF BEST PRACTICE  
ON  
CORPORATE GOVERNANCE  
2013**

**CODE OF BEST PRACTICE**

**ON**

**CORPORATE GOVERNANCE**

*Issued jointly by*

*The Securities and Exchange Commission of Sri Lanka*  
*&*  
*The Institute of Chartered Accountants of Sri Lanka*  
*Year 2013*

**First Edition:**

*Code of Best Practice on matters related to financial aspects of Corporate Governance*  
Issued in December 1997

**Special Edition:**

*The Code of Best Practice on Audit Committees*  
Issued in May 2002

**Second Edition:**

*Code of Best Practice-Corporate Governance*  
Issued in March 2003

**Third Edition:**

*Code of Best Practice on Corporate Governance*  
Issued in June 2008

## **Foreword by Chairman of Corporate Governance Committee**

The objective and purpose of Corporate Governance has been articulated in different ways. The quotations below depict some key dimensions of Corporate Governance;

*“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”*  
(OECD Principles of Corporate Governance, 2nd Edition, 2004)

*“The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.”*  
(UK Combined Code 2010)

*“Corporate governance is about promoting corporate fairness, transparency and Accountability.”*  
(The Economist Intelligence Unit Limited – 2002)

A strong structure, process and diligent practice of corporate governance is imperative to inspire investor confidence, expand the private sector, stimulate economic growth, reduce opportunity for fraud thus creating a healthy and robust investment climate.

The Institute of Chartered Accountants of Sri Lanka is proud to be the pioneer in introducing Corporate Governance to Sri Lanka. The first Code; **Code of Best Practice on matters related to financial aspects of Corporate Governance**, was issued in December 1997. The sub-committee which developed the Code was chaired by Mr. Ajith Nivard Cabraal during the Presidency of Mr. Reyaz Mihular. This was a voluntary best practice Code, guided by Corporate Governance publications, then globally applicable.

Thereafter, during the Presidency of Mr. Ranel Wijesinha this Code was updated to be in line with the Combined Code of U.K. This sub-committee was chaired by Mr. Chandra Jayaratne. The updated code was issued in March 2003 as the **Code of Best Practice on Corporate Governance**.

In June 2008 a revised **Code of Best Practice on Corporate Governance** was issued during the presidency of Mr. Nishan Fernando. This project was a joint initiative between the **Securities & Exchange Commission of Sri Lanka** and the **Institute of Chartered**

**Accountants of Sri Lanka.** This Committee was co-chaired by Mr. Ajith Nivard Cabraal and myself.

The current revision once again a joint initiative between the **Securities & Exchange Commission of Sri Lanka** and the **Institute of Chartered Accountants of Sri Lanka** was commenced in the final quarter of 2011 under the presidency of Mr. Sujeewa Mudalige and thereafter continued in 2012 during the presidency of Mr. Sujeewa Rajapakse. The Committee was co-chaired by Mr. Sujeewa Mudalige and myself.

A well representative, experienced and knowledgeable committee (refer annex) was invited to participate in this project. They reviewed primarily the UK Corporate Governance Code (2010 version), Report of the New York Stock Exchange Commission on Corporate Governance, Code of Corporate Governance – Singapore, Corporate Governance Principles and Recommendations of the Australian Securities Exchange, the Malaysian Code on Corporate Governance and Corporate Governance Voluntary Guidelines – India. The initial drafting of the Code was completed during the latter part of 2012, based on which there were further deliberations of the Committee to fine tune the Code.

This revision took into consideration relevant developments in best practices worldwide and emerging matters specific to Sri Lanka. Corporates are encouraged to adopt this Code in discharging their corporate governance responsibilities.

Key amendments in this version include;

- reporting internal control, risk management and related responsibilities of the Audit Committees and Boards of directors.
- reporting requirements of the remuneration committees.
- role of the company secretary in Corporate Governance.
- communication with shareholders.
- disclosure and approval of major and material transactions, including those with related parties.
- sustainability reporting

I take this opportunity to thank all those who were involved with the process, namely the representatives from; the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange, Sri Lanka Accounting & Auditing Standards Monitoring Board, the Central Bank of Sri Lanka, Insurance Board of Sri Lanka, Listed Corporates, eminent members of the legal profession, the Council of the Institute of Chartered Accountants of Sri Lanka, the Technical Directorate of the

Institute of Chartered Accountants of Sri Lanka and other members of the Committee who contributed immensely their time, experience and knowledge in developing this Code.

**Asite Talwatte**  
**Co Chairman**  
**Corporate Governance Committee**  
**4<sup>th</sup> September 2013**

## **Message by President, Institute of Chartered Accountants of Sri Lanka**

I take great pleasure in releasing this message to accompany the updated publication of the Code of Best Practice on Corporate Governance 2013, which was formulated through the joint initiatives of the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Corporate Governance which is popularly understood to be the system by which Companies are directed and controlled, has been an issue which has resulted in a great deal of comment and debate all over the world. The Institute of Chartered Accountants of Sri Lanka is indeed proud to be the pioneer in introducing good corporate governance principles to the nation with the introduction of the 'Code of Best Practice on matters related to financial aspects of Corporate Governance' in 1997, which was subsequently updated in 2003 and 2008.

Corporate Governance is a dynamic force that keeps evolving. Therefore, taking into account the changes taking place in other parts of the world the committee was appointed in 2011 to review and revise the Code of Best Practice on Corporate Governance, issued in 2008. This publication is a result of the endeavours of this committee which was co-chaired by Mr. Asite Talwatte and Mr. Sujeewa Mudalige.

Finally I wish to express my sincere appreciation and acknowledge the valuable contribution made by the Corporate Governance Committee, representatives from the Securities & Exchange Commission of Sri Lanka, the Colombo Stock Exchange, Sri Lanka Accounting & Auditing Standards Monitoring Board, the Central Bank of Sri Lanka, Insurance Board of Sri Lanka, Listed Corporates and members of the legal profession for their efforts in developing and introducing this Code. I also take this opportunity to thank all technical and administrative staff at the technical division for producing this publication expeditiously.

**Sujeewa Rajapakse**  
**President**

**The Institute of Chartered Accountants of Sri Lanka**  
**4<sup>th</sup> September 2013**

## **Message by Chairman, Securities & Exchange Commission of Sri Lanka**

It gives me great pleasure to forward this message on the occasion of presenting the revised Code of Best Practice on Corporate Governance. Corporate governance has become a subject of heightened importance in the wake of the recent corporate governance failures that took place around the world. Upholding the virtues of Corporate Governance indicates not only accountability to shareholders, greater transparency and fairness but it promotes the role of companies in the creation of wealth of the nation.

At a juncture when Sri Lanka is striving to achieve medium and long term economic growth above 8%, companies that are governed according to these standards can support finance economic growth by attracting capital efficiently and effectively. Therefore good corporate governance plays a critical role in ensuring not only corporate success but also promote economic growth.

It is often said that Corporate Governance is a journey and Corporate Governance in Sri Lanka has come a long way from a voluntary code of compliance to the present minimum rules of corporate governance for mandatory compliance of listed companies. Since the introduction of the mandatory code, listed companies have been able to enhance board effectiveness, strengthen the relationship between the company and its stakeholders and strengthen business integrity.

The revision of the code is a timely effort to ensure that the corporate governance principles remain relevant and in line with international best practices. I wish to commend all those who contributed towards formulating the revised code and believe that it will further lead to fostering a strong culture of corporate governance amongst listed companies in Sri Lanka and improve the economic prospects of the country.

**Nalaka Godahewa**  
**Chairman**  
**Securities and Exchange Commission of Sri Lanka**  
**4<sup>th</sup> September 2013**



# CONTENTS

<b><u>SECTION</u></b>	<b><u>TITLE</u></b>
<b><u>I</u></b>	<b><u>THE COMPANY</u></b>
<b>A</b>	<b>Directors</b>
A.1	The Board
A.2	Chairman and Chief Executive Officer (CEO)
A.3	Chairman's Role
A.4	Financial Acumen
A.5	Board Balance
A.6	Supply of Information
A.7	Appointments to the Board
A.8	Re-election
A.9	Appraisal of Board Performance
A.10	Disclosure of information in respect of Directors
A.11	Appraisal of Chief Executive Officer (CEO)
<b>B</b>	<b>Directors' Remuneration</b>
B.1	Remuneration Procedure
B.2	The level and make up of Remuneration
B.3	Disclosure of Remuneration
<b>C</b>	<b>Relations with Shareholders</b>
C.1	Constructive use of the Annual General Meeting (AGM) and conduct of general meetings
C.2	Communication with shareholders
C.3	Major and Material Transactions
<b>D</b>	<b>Accountability and Audit</b>
D.1	Financial Reporting
D.2	Internal Control
D.3	Audit Committee
D.4	Code of Business Conduct and Ethics
D.5	Corporate Governance Disclosures

**II**                    **SHARE HOLDERS**

**E**                        **Institutional Investors**

E.1                      Shareholder Voting

E.2                      Evaluation of Governance Disclosures

**F**                        **Other Investors**

F.1                      Investing/Divesting Decisions

F.2                      Shareholder Voting

**G**                        **Sustainability Reporting**

ANNEXURES

- A                        Terms of Reference for Nomination Committees
- B                        Board Performance Evaluation Checklist
- C                        Terms of Reference for Remuneration Committees
- D                        Specimen Remuneration Committee Report
- E                        Provisions on the Determination of Performance-Related Remuneration
- F                        Role of the Company Secretary
- G                        Matters for consideration when making “Going-Concern” assumptions
- H                        Summary of Disclosures
- I                        Code of Business Conduct and Ethics
- J                        Declaration of Independence
- K                        The Responsibilities of Directors in maintaining a sound system of Internal Control

## **CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE**

### SECTION 1 : THE COMPANY

#### A DIRECTORS

##### A.1 THE BOARD

Principle A.1 Every public company should be headed by an effective Board, which should direct, lead and control the Company.

A.1.1 The Board should meet regularly. Board meetings should be held at least once in every quarter of a financial year, in order to effectively execute board's responsibilities, while providing information to the board on a structured and regular basis.

A.1.2 The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. In performing its role, the Board should be responsible for matters including:

- ensuring the formulation and implementation of a sound business strategy;
- ensuring that the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy;
- ensuring the adoption of an effective CEO and Key Management Personnel succession strategy;
- ensuring effective systems to secure integrity of information, internal controls, business continuity and risk management;
- ensuring compliance with laws, regulations and ethical standards;
- ensuring all stakeholder interests are considered in corporate decisions;
- recognising sustainable business development in Corporate Strategy, decisions and activities;

- ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations; and
- fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned.

A.1.3 The Board collectively, and Directors individually, must act in accordance with the laws of the Country, as applicable to the business enterprise. There should be a procedure agreed to by the Board of Directors, to obtain independent professional advice where necessary, at the Company's expense.

A.1.4 All Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board in ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the Company Secretary should be a matter for the Board as a whole. The role of Company Secretary is given in Schedule F.

A.1.5 All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct.

A. 1.6 Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged. It must be recognised that Directors have to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification, and after a meeting to follow up on issues consequent to the meeting. This should be supplemented by a time allocation for familiarisation with business changes, operations, risks and controls.

A. 1.7 Every Director should receive appropriate training when first appointed to the Board of a company, and subsequently as necessary. Training curricula should encompass both general aspects of directorship and matters specific to the particular industry/company concerned. A Director must recognise that there is a need for continuous training and an expansion of the knowledge and skills required to effectively perform his

duties as a Director. The Board should regularly review and agree the training and development needs of the Directors.

A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)

Principle A.2 There are two key tasks at the top of every public company – conducting of the business of the Board, and facilitating executive responsibility for management of the Company’s business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

A.2.1 A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.

A.3 CHAIRMAN’S ROLE

Principle A.3 The Chairman’s role in preserving good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.

A. 3.1 The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that:

- the effective participation of both Executive and Non-Executive Directors is secured;
- all Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company;
- a balance of power between Executive and Non-Executive Directors is maintained;
- the views of Directors on issues under consideration are ascertained; and
- the Board is in complete control of the Company’s affairs and alert to its obligations to all shareholders and other stakeholders.

A.4 FINANCIAL ACUMEN

Principle A.4 The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.

A.5 BOARD BALANCE

Principle A.5 It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.

A.5.1 The Board should include Non-Executive Directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions. The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of total number of Directors, whichever is higher. In the event the Chairman and CEO is the same person, Non-Executive Directors should comprise a majority of the Board.

The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting. Further, any change occurring to this ratio should be rectified within 90 days from the date of the change.

A.5.2 Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non-Executive Directors should be 'independent'. In all other instances two or one third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'independent'.

A.5.3 For a Director to be deemed 'independent' such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.

A.5.4 Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria set out in the Specimen in Schedule H.

#### A.5.5

The Board should make a determination annually as to the independence or non-independence of each Non-Executive Director based on such a declaration made of decided criteria and other information available to the Board. The Board should determine whether the Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board should specify the criteria not met and the basis for its determination in the annual report, if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which indicate the contrary and should set out in the Annual Report the names of Directors determined to be 'independent'.

A Director would not be independent if he/she:

- has been employed by the Company, subsidiary or parent of the Company during the period of two years immediately preceding appointment;
- currently has or has had within last two years immediately preceding appointment as Director, a Material Business Relationship with the Company, whether directly or indirectly;
- has a close family member who is a Director or chief executive officer or Key Management Personnel (and/or an equivalent position);
- is a significant shareholder of the Company or an officer of, or otherwise associated directly with, a significant shareholder of the Company;
- has served on the Board of the Company continuously for a period exceeding nine years from the date of the first appointment;
- is employed in another company or business:
  - in which a majority of the other directors of the Company are employed or are Directors; or
  - in which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or
  - that has a Significant Shareholding in the Company or with which the Company has a Business Connection;

- is a Director of another company:
  - in which a majority of the other Directors of the Company are employed or are Directors; or
  - that has a Business Connection with the Company or Significant Shareholding in the Company;
- has a Material Business Relationship or a Significant Shareholding in another company or business:
  - in which a majority of the other Directors of the Company are employed or are Directors; and/or
  - which has a Business Connection with the Company or Significant Shareholding in the same.

The above list is not exhaustive, and should be viewed as a guide rather than a set of rules on the basis of which independence can be conclusively determined.



DEFINITIONS RELATING TO INDEPENDENCE CRITERIA

Close Family Member - shall mean and include the Director's spouse, parents, grandparents, children, brothers, sisters, grandchildren and any person who is financially dependent on such Director.

Financially Dependent Individuals - include any person who received more than half of their support for the most recent fiscal year from a Director and/or his or her spouse.

Material Business Relationship - includes any relationship that results in income/non-cash benefits equivalent to 10% of the Director's annual income.

Business Connection - shall mean a relationship resulting in transaction value equivalent to 10% of the turnover of that company or business.

Significant Shareholdings - can be defined as a shareholding carrying not less than 5% of the voting rights of a Company.

Indirectly - includes but is not limited to a partner, shareholder, Director, Key Management Personnel of a body that has a Business Connection with the Company.

Key Management Personnel - those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

A.5.6 If an alternate Director is appointed by a Non-Executive Director such alternate director should not be an executive of the Company. If an alternate Director is appointed by an independent Director, the person who is appointed also should meet the criteria of independence and the provision on minimum number of independent Directors also should be satisfied.

A.5.7 In the event the Chairman and CEO is the same person, the Board should appoint one of the independent Non-

Executive Directors to be the “Senior Independent Director” (SID) and disclose this appointment in the Annual Report.

A.5.8 The Senior Independent Director should make himself available for confidential discussions with other Directors who may have concerns which they believe have not been properly considered by the Board as a whole and which pertain to significant issues that are detrimental to the Company.

A.5.9 The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.

A.5.10 Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.

#### A.6 SUPPLY OF INFORMATION

Principle A.6 The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.

A.6.1 Management has an obligation to provide the Board with appropriate and timely information, but information volunteered by management may not be enough in all circumstances and Directors should make further inquiries where necessary. The Chairman should ensure all Directors are properly briefed on issues arising at Board meetings.

A.6.2 The minutes, agenda and papers required for a Board Meeting should ordinarily be provided to Directors at least seven (7) days before the meeting, to facilitate its effective conduct.

#### A.7 APPOINTMENTS TO THE BOARD

Principle A.7 There should be a formal and transparent procedure for the appointment of new Directors to the Board.

A.7.1 A Nomination Committee should be established to make recommendations to the Board on all new Board appointments. Terms of Reference for Nomination Committees are set out in Schedule A. The Chairman and

members of the Nomination Committee should be identified in the Annual Report.

A.7.2 The Nomination Committee or in the absence of a nomination committee, the Board as a whole should annually assess Board-composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment should be taken into account when new Board appointments are considered and when incumbent Directors come up for re-election.

A.7.3 Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders:

- a brief resume of the Director;
- the nature of his expertise in relevant functional areas;
- the names of companies in which the Director holds directorships or memberships in Board committees; and
- whether such Director can be considered 'independent'.

## A.8 RE-ELECTION

Principle A.8 All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.

A.8.1 Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re-appointment should not be automatic.

A.8.2 All Directors including the Chairman of the Board, should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The names of Directors submitted for election or re-election should be accompanied by a resume minimally as set out in paragraph A.7.3 above, to enable shareholders to make an informed decision on their election.

A.9 APPRAISAL OF BOARD PERFORMANCE

Principle A.9 Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

A.9.1 The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2.

Schedule B contains a sample “Board Performance Evaluation Checklist” that may be used for this purpose.

A.9.2 The Board should also undertake an annual self-evaluation of its own performance and that of its Committees.

A.9.3 The Board should state how such performance evaluations have been conducted, in the Annual Report.

A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS

Principle A.10 Shareholders should be kept advised of relevant details in respect of Directors.

A.10.1 The Annual Report of the Company should set out the following information in relation to each Director:

- name, qualifications and brief profile;
- the nature of his/her expertise in relevant functional areas;
- immediate family and/or material business relationships with other Directors of the Company;
- whether Executive, Non-Executive and/or independent Director;
- names of listed companies in Sri Lanka in which the Director concerned serves as a Director;
- names of other companies in which the Director concerned serves as a Director, provided that where he/she holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he/she holds other directorships in such companies;

- number/percentage of Board meetings of the Company attended during the year;
- the total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity;
- names of Board Committees in which the Director serves as Chairman or a member; and
- number/percentage of committee meetings attended during the year.

A.11 APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)

Principle A.11 The Board should be required, at least annually, to assess the performance of the CEO.

A.11.1 At the commencement of every fiscal year, the Board in consultation with the CEO, should set, in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.

A.11.2 The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.

B DIRECTORS' REMUNERATION

B.1 REMUNERATION PROCEDURE

Principle B.1 Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.

B.1.1 To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the Company's framework of remunerating executive directors. (These also include Post Employment Benefits as well as Terminal Benefits)

Terms of Reference for Remuneration Committees are set out in Schedule C.

- B.1.2 Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.
- B.1.3 The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.
- B.1.4 The Board as a whole, or where required by the Articles of Association the shareholders, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association. Where permitted by the Articles, the Board may delegate this responsibility to a sub-committee of the Board, which might include the CEO.
- B.1.5 The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice from within and outside the Company, in discharging their responsibilities.

## B.2 THE LEVEL AND MAKE UP OF REMUNERATION

- Principle B.2 Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.
- B.2.1 The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.
- B.2.2 The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other companies. It should be aware what comparable companies are paying and should take account of relative performance, but should use such comparisons with caution, mindful of the risk that they can result in an increase of remuneration levels with no corresponding improvement in performance.

- B.2.3 The Remuneration Committee should be sensitive to remuneration and employment conditions elsewhere in the Company or Group of which it is a part, especially when determining annual salary increases.
- B.2.4 The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.
- B.2.5 Executive share options should not be offered at a discount (i.e. less than market price prevailing at the time the exercise price is determined), save as permitted by the Listing Rules of the Stock Exchange.
- B.2.6 In designing schemes of performance-related remuneration, Remuneration Committees should follow the provisions set out in Schedule E.
- B.2.7 Remuneration Committees should consider what compensation commitments (including pension contributions) their Directors' contracts of service, if any, entail in the event of early termination. Remuneration Committees should in particular, consider the advantages of providing explicitly for such compensation commitments to apply other than in the case of removal for misconduct, in initial contracts.
- B.2.8 Where the initial contract does not explicitly provide for compensation commitments, Remuneration Committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances. The broad aim should be, to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance.
- B.2.9 Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their role, taking into consideration market practices. Remuneration for Non-Executive Directors should not normally include share options. If exceptionally options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the Non-Executive Director leaves the Board. Holding share options could be relevant to the determination of a Non-

Executive Director's independence. (as set out in provision A.5.5)

B.3 DISCLOSURE OF REMUNERATION

Principle B.3 The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole. Refer Schedule D for Specimen Remuneration Committee Report.

B.3.1 The Annual Report should set out the names of Directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.

C RELATIONS WITH SHAREHOLDERS

C.1 CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS

Principle C.1 Boards should use the AGM to communicate with shareholders and should encourage their participation.

C.1.1 Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.

C.1.2 Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.

C.1.3 The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.

C.1.4 Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.



C.1.5 Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.

## C.2 COMMUNICATION WITH SHAREHOLDERS

Principle C.2 The Board should implement effective communication with shareholders.

C. 2. 1 There should be a channel to reach all shareholders of the Company in order to disseminate timely information.

C. 2 .2 The Company should disclose the policy and methodology for communication with shareholders.

C. 2.3 The Company should disclose how they implement the above policy and methodology.

C. 2. 4 The Company should disclose the contact person for such communication.

C. 2. 5 There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.

C .2. 6 The Company should decide the person to contact in relation to shareholders' matters. The relevant person with statutory responsibilities to contact in relation to shareholders' matters is the Company Secretary or in his/her absence should be a member of the Board of Directors.

C. 2. 7 The process for responding to shareholder matters should be formulated by the Board and disclosed.

## C.3 MAJOR AND MATERIAL TRANSACTIONS

Principle C.3 Further to complying with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations; as applicable, Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's net assets base or in the case of a Company with subsidiaries, the consolidated group net asset base.

- C.3.1 Prior to a Company engaging in or committing to a 'Major related party transaction' with a related party, involving the acquisition, sale or disposition of greater than one third of the value of the Company's assets or that of a subsidiary which has a material bearing on the Company and/or consolidated net assets of the Company, or a transaction which has or is likely to have the effect of the Company acquiring obligations and liabilities, of greater than one third of the value of the Company's assets, Directors should disclose to shareholders the purpose and all material facts of such transaction and obtain shareholders' approval by ordinary resolution at an extraordinary general meeting. It also applies to transactions or series of related transactions which have the purpose or effect of substantially altering the nature of the business carried on by the Company.

D ACCOUNTABILITY AND AUDIT

D.1 FINANCIAL REPORTING

Principle D.1 The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.

D.1.1 The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.

D.1.2 The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that:

- the Company has not engaged in any activity, which contravenes laws and regulations;
- the Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested;
- the Company has made all endeavours to ensure the equitable treatment of shareholders;

- the business is a going concern, with supporting assumptions or qualifications as necessary; and
- they have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith,

and, if it is unable to make any of these declarations, to explain why it is unable to do so.

D.1.3 The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements, together with a statement by the Auditors about their reporting responsibilities. Further, the Annual Report should contain a Report/Statement on Internal Control. Refer Annexure K for the contents of the Statement on Internal Control.

D.1.4 The Annual Report should contain a “Management Discussion & Analysis”, discussing, among other issues:

- industry structure and developments;
- opportunities and threats;
- risks and concerns;
- internal control systems and their adequacy;
- social and environmental protection activities carried out by the Company;
- financial performance;
- material developments in human resource / industrial relations; and
- prospects for the future.

D.1.5 The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary. The matters to which the Board should give due consideration when adopting the going concern assumption are set out in Schedule G to this Code.

D.1.6 In the event the net assets of the Company fall below 50% of the value of the Company’s shareholders’ funds, the Directors shall forthwith summon an Extraordinary

General Meeting of the Company to notify shareholders of the position and of remedial action being taken.

D.1.7 The Board should adequately and accurately disclose the related party transactions in its Annual Report:

- Each related party should submit signed and dated declaration quarterly mentioning whether they have related party transactions with the Company as defined in this Code;
- It should be the responsibility of the Company Secretary to keep a record on related party transactions and make necessary disclosures accordingly;
- There should be a process to capture related parties and related party transactions. This process needs to be operationalized and related party transactions should be properly documented. Further, a report should be presented by the Audit Committee to the Board on identified related parties and related party transactions on a regular basis;
- A record/register either in hard or soft form on related party and related party transaction should be maintained by the Company;
- This record should ensure that the Company captures information to comply with the respective related party disclosure requirements imposed by SEC/Accounting Standards/ Auditing Standards and similar regulations.

## DEFINITIONS – AS PER LKAS 24 - RELATED PARTY DISCLOSURES

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

## D.2 INTERNAL CONTROL

Principle D.2 The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of Company's objectives.

D.2.1 The Directors should, at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal controls, so as to be able to report to shareholders as required in D.1.3. This could be made the responsibility of the Audit Committee.

D.2.2 Companies should have an internal audit function.

D.2.3 The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls, and to document to the Board and Board takes the responsibility for the disclosures on internal controls.

D.2.4 The Schedule K to this document contains guidance on the responsibilities of Directors in maintaining a sound system of internal control and the contents of the Statement of Internal Control.

## D.3 AUDIT COMMITTEE

Principle D.3 The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.

D.3.1 The Audit Committee should be comprised of a minimum of two independent Non-Executive Directors (in instances where a Company has only two directors on its Board) or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.

The Chairman of the Committee should be a Non-Executive Director, appointed by the Board.

D.3.2 The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors. Where the Auditors also supply a substantial volume of non-audit services to the Company, the Committee should keep the nature and extent of such services under review, seeking to balance objectivity, independence and value for money.

D.3.3 The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties. The Audit Committee's written Terms of Reference must address:

- The Committee's purpose – which, at minimum, must be to:
  - Assist Board oversight of the:
    - preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards;
    - Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements;
    - processes to ensure that the Company's internal controls and risk management procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards;
    - assessing the Company's ability to continue as a going concern in the foreseeable future; and
    - independence and performance of the Company's external Auditors.
- The duties and responsibilities of the Audit Committee – which, at a minimum must include those set out in the Code of Best Practice on Audit Committees issued by the Institute of Chartered Accountants of Sri Lanka in 2002, and should also include:
  - making recommendations to the Board, pertaining to appointment, re-appointment and

removal of external Auditors and to approve the remuneration and terms of engagement of the external Auditors;

- discussion of the audit plan, key audit issues and their resolution, management responses and the proposed remuneration of the Auditor;
- discussion of the Company's annual audited financial statements and quarterly financial statements with management and the Auditor;
- discussion of the Company's earnings press releases and financial information and earnings guidance provided to analysts and rating agencies;
- discussion of policies and practices with respect to risk assessment and risk management;
- ensuring that a process of sound system of internal control is in place;
- ensuring that an effective internal audit function is in place;
- meeting separately, periodically, with management, Auditors and internal auditors;
- establishing mechanisms for the confidential receipt, retention and treatment of complaints alleging fraud, received from internal/external sources and pertaining to accounting, internal controls or other such matters;
- assuring confidentiality to whistle-blowing employees;
- presenting a report to the Board on identified related parties and related party transactions on a regular basis;
- setting clear hiring policies for employees or former employees of the Auditors; and
- reporting regularly to the Board of Directors.

Detailed guidance on the scope and functions of the Audit Committee can be found in the Code of Best Practice on Audit Committees issued by the Institute of Chartered Accountants of Sri Lanka in 2002.



#### D.3.4 DISCLOSURES

The names of Directors (persons in the parent company's committee in the case of a group company) comprising the Audit Committee should be disclosed in the Annual Report.

The Committee should also make a determination of the independence of the Auditors and should disclose the basis of such determination in the Annual Report.

The Annual Report should contain a report by the Audit Committee, setting out the manner of compliance by the Company, in relation to the above, during the period to which the Annual Report relates.

#### D.4 CODE OF BUSINESS CONDUCT & ETHICS

Principle D.4 Companies must adopt a Code of Business Conduct & Ethics for Directors, and Key Management Personnel and must promptly disclose any waivers of the Code for Directors or others.

D.4.1 All Companies must disclose whether they have a Code of Business Conduct & Ethics for Directors and Key Management Personnel and if they have such a Code, make an affirmative declaration in the Annual Report that all Directors and Key Management Personnel have declared compliance with such Code, and if unable to make that declaration, state why they are unable to do so. Each Company may determine its own policies in the formulation of such a Code, but all Companies should address the following important topics in their respective Codes:

- conflict of interest;
- bribery and corruption;
- entertainment and gifts;
- accurate accounting and record-keeping;
- corporate opportunities;
- confidentiality;
- fair dealing;
- protection and proper use of company assets;

- compliance with laws, rules and regulations (including insider trading laws); and
- encouraging the reporting of any illegal or unethical behaviour.

These aspects are expanded on, in Schedule I.

D.4.2 The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics.

D.5 CORPORATE GOVERNANCE DISCLOSURES

Principle D.5 Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.

D.5.1 The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner and extent to which the Company has complied with the principles and provisions of this Code.

SECTION 2: SHAREHOLDERS

E INSTITUTIONAL INVESTORS

E.1 SHAREHOLDER VOTING

Principle E.1 Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.

E.1.1 A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives. Arising from such dialogue, the Chairman should ensure the views of shareholders are communicated to the Board as a whole.

E.2 EVALUATION OF GOVERNANCE DISCLOSURES

Principle E.2 When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be

encouraged to give due weight to all relevant factors drawn to their attention.

F OTHER INVESTORS

F.1 INVESTING/ DIVESTING DECISION

Principle F.1 Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.

F.2 SHAREHOLDER VOTING

Principle F.2 Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.

G SUSTAINABILITY REPORTING

G.1 Principles of Sustainability Reporting

Sustainability is a business approach that creates long term stakeholder value by embracing opportunities and managing risks derived from economic, environmental and social developments and their potential implications and impacts on the business activities of the entity.

Sustainability reporting is the practice of recognizing, measuring, disclosing and being accountable to internal and external stakeholders for organizational performance towards the goals of sustainable development in the context of the overall business activities and strategy of the entity and be directed to the target stakeholders, usually, shareholders, employees, consumers, society and Government.

The following principles will serve the entities in maintaining policies and procedures to develop a sustainable business environment and to make disclosures on sustainability.

G.1.1 Principle 1 – Economic sustainability

The principle of economic sustainability governance recognizes how organizations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate citizenship in their sphere of influence (including geographic) and how this is integrated throughout the organization.

G.1.2 Principle 2 – The Environment

Environmental Governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their decisions and activities, including pollution prevention, sustainable resource use, climate change, protection of environment, bio-diversity and restoration of national resources.

G.1.3 Principle 3 – Labour Practice

Labour practices governance of an organisation encompass all policies and practices relating to work performed by or on behalf of the organization.

G.1.4 Principle 4 – Society

Society Governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community involvement.

G.1.5 Principle 5 – Product Responsibility

Product responsibility Governance includes manufacturing quality products and distributing them and ensuring that the products are safe for the consumers and the environment and also communicating clearly with consumers so that they can make an informed choice including factual unbiased information and fair contractual practices and consumer data protection and privacy.

G.1.6 Principle 6 – Stakeholder identification, engagement & effective communication

Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communications should be proactive and transparent. The communication with stakeholders should include reporting on economic, social and environmental issues and be relevant, material, comparable with past performance and should be well presented focusing on substance over form.

G.1.7 Principle 7 – Sustainable reporting and disclosure should be formalized as part of the Company's reporting processes and take place on a regular basis.

- Sustainability reporting is a Board responsibility and it is designed to add value by providing a credible account of the Company's economic, social and environmental impact.
- Sustainability reporting should link sustainable issues more closely to strategy.
- Sustainability reporting may be built on a number of different guidelines, such as:
  - National Green Reporting System of Sri Lanka
  - The Global Reporting Initiative Guidelines
  - AA 1000 Framework and Stakeholder Engagement Standard
  - United Nations Global Compact
  - ISO 9000 Quality Management Assurance Standard
  - ISO 14000 Environmental Standard
  - ISO 26000 on Social Responsibility
  - OHSAS 18000 Occupational Health and Safety Standard

**SCHEDULE A**  
**TERMS OF REFERENCE FOR NOMINATION COMMITTEES**

**Membership**

Majority of the Membership of the Committee shall be Non-Executive Directors together with the Chief Executive.

The Chairman of the Committee shall be a Non-Executive Director appointed by the Board.

The Quorum of the Committee shall be two members who are Non-Executive Directors.

**Secretary**

The Secretary of the Company shall be Secretary of the Committee.

**Advisors**

The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

**Duties**

The duties of the Committee shall be to:

- propose a suitable Charter for the appointment and re-appointment of Directors to the Board and to act in accordance with such Charter in proposing appointments and re-appointments. Such Charter shall cover areas such as qualifications, competencies, independence, relationships which have potential to give rise to conflict vis-a-vis the business of the Company etc.;
- consider the making of any appointment or re-appointment to the Board;
- provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment;
- consider if a Director is able to and has been adequately carrying out his or her duties as a Director, taking into consideration the Director's number of listed company boards on which the Director is represented and other principal commitments;

- propose the maximum number of listed company Board representations which any Director may hold, and disclose this in the Company's annual report;
- regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes; and
- a member of the Nomination Committee should not participate in decisions relating to his/her own appointment.

### **Minutes**

The Minutes of the meetings of the Committee shall be circulated to all members of the Board.

**SCHEDULE B**  
**BOARD PERFORMANCE EVALUATION CHECKLIST**

Legend

- A : Exceptionally Good
- B : Above Expectations
- C : In line with Expectation
- D : Below Expectation
- E : Significant Room for Improvement

N.B. This questionnaire is to be evaluated independently by all Directors (i.e. Executive and Non-Executive Directors) and the results tabulated and presented to the Board as a whole.

Methodology

Please answer Yes or No to each question and indicate the “rating” thereafter.

Performance Evaluation of the Board of Directors	Yes	No	A	B	C	D	E
Does the Board as a whole undertake a formal and rigorous annual evaluation of its own performance and that of its Committees?							
Does the Board state in the Annual Report how such performance evaluation has been conducted?							
Are the results of the Board evaluation shared with the Board as a whole?							
Are the processes for setting the agenda working? Do they enable the Board members to raise issues and concerns?							
How well has the Board performed against any performance objectives that have been set?							
What has been the Board’s contribution towards developing and monitoring							



implementation of strategy?							
What has been the Board's contribution to ensuring robust and effective risk management?							
Is the composition of the Board and its Committees appropriate, with the right mix of knowledge and skills to maximize performance in the light of future strategy?							
Has the Board identified the right compensation philosophy "to retain and motivate staff in a manner appropriate for the business"?							
Has the Board identified the succession plan to ensure comprehensive staff succession - "to ensure talent availability and address expectations of high potential and high quality staff."							
Are relationships and communication with shareholders well managed?							
How has the Board responded to any problems or crises that have emerged? Could or should these have been foreseen?							
How well does the Board communicate with the management team, company employees and others?							
How effectively does it use mechanisms such as the AGM and the Annual Report?							
Is the Board as a whole up-to-date with latest developments in the regulatory environment, laws and the market?							
Has the Board ensured that internal control and the audit function of the Company are conducted in an effective manner?							

<p>How effective are the Board's Committees:</p> <ul style="list-style-type: none"> <li>• is their membership defined?</li> <li>• is there a secretary?</li> <li>• are there rules pertaining to attendance and were they followed?</li> <li>• are there rules pertaining to frequency of meetings and were they followed?</li> <li>• are there rules pertaining to seeking advice?</li> <li>• are duties defined (e.g. through a charter)?</li> <li>• were the objectives of the Committee fulfilled?</li> </ul>							
<p>Is appropriate, timely information of the right length and quality provided to the Board? Is the management responsive to requests for clarification or amplification?</p>							
<p>Are sufficient Board and Committee meetings of appropriate length held, to enable proper consideration of issues? Is time effectively used?</p>							
<p>Is there adequate and timely recording of proceedings of meetings, decisions and descents etc?</p>							
<p>Are Board procedures conducive to effective performance, and flexible enough to deal with eventualities?</p>							

Performance Evaluation of the Non-Executive Directors	Yes	No	A	B	C	D	E
How well prepared and informed are they for Board Meetings? Is their meeting attendance satisfactory?							
Do they demonstrate a willingness to devote time and effort to understand the Company and its business and a readiness to participate in events outside the board room, such as site visits?							
How good has been the quality and value of their contributions at Board Meetings?							
How good has been their contribution to the development of strategy and to risk management?							
How successfully have they brought their knowledge and experience to bear in the consideration of strategy?							
How effectively have they probed to test information and assumptions? How resolute are they in maintaining their own views and resisting pressure from others, when necessary?							
How effectively and proactively have they followed up their areas of concern?							
How effective and successful are their relationships with fellow board members, the Company Secretary and Key Management Personnel?							
Does their performance and behaviour engender mutual trust and respect within the Board?							
How actively and successfully do they refresh their							

<p>knowledge and skills?  Are they up-to-date with</p> <ul style="list-style-type: none"> <li>• latest developments in areas such as Corporate Governance and Financial Reporting?</li> <li>• industry and market conditions?</li> </ul>							
<p>How well do they communicate with fellow board members, Key Management Personnel and others, for example shareholders?  Are they able to present their views convincingly yet diplomatically, and do they listen and take on board views of others?</p>							

**SCHEDULE C**  
**TERMS OF REFERENCE FOR REMUNERATION COMMITTEES**

**Membership**

The Remuneration Committee should be comprised by a minimum of two independent Non-Executive Directors (in instances where a Company has only two Directors on its Board) or exclusively by Non-Executive Directors a majority of whom shall be independent, whichever is higher.

The Chairman of the Committee shall be an independent Non-Executive Director and shall be appointed by the Board.

The Quorum of the Committee shall be at least two members.

**Secretary**

The Secretary of the Company shall be the Secretary of the Committee.

**Attendance by Invitation**

The Chief Executive shall be invited to attend meetings and shall be consulted on the performance and remuneration of Executive Directors and make proposals as necessary.

The Chief Executive will also report to the Committee on significant group-wide changes in salary structures and terms and conditions affecting Key Management Personnel.

**Frequency of meetings**

Meetings shall be held not less than twice a year.

**Advisors**

The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

## **Duties**

The Committee shall be responsible for :

- The remuneration policy and its specific application to the CEO & Executive Directors and general application to the Key Management Personnel (KMP) below the main Board;
- The remuneration and incentive framework, including any proposed equity incentive awards including terminal benefits/pension rights for the CEO, any other Executive Directors and KMP;
- Recommendations and decisions (as relevant) on remuneration and all incentive awards including any equity incentive awards and terminal benefits/pension rights for the CEO, any other Executive Directors and KMP;
- Evaluating the performance of the CEO, management development plans and succession planning;
- Reviewing/monitoring evaluation of performance of KMP and their management development and succession planning;
- Strategic human resources policies;
- Effective communication with shareholders on the remuneration policy and the committee's work on behalf of the Board through a remuneration committee report;
- Recommending and ensuring that the appropriate service contracts are available for Executive Directors; and
- Determining the terms of any compensation package in the event of early termination of the contract of any Executive Director.

## **Minutes**

The minutes of meetings of the Committee shall be circulated to all members of the Board.

## **NOTE**

The term 'remuneration' shall make reference to cash and non-cash benefits whatsoever received in consideration of employment with the Company.

**SCHEDULE D**  
**SPECIMEN REMUNERATION COMMITTEE REPORT**

**The Remuneration Committee**

The Remuneration Committee operates within agreed terms of reference and is committed to the principles of accountability and transparency, and ensuring that remuneration arrangements align reward with performance.

The remuneration of the Chairman of the Board is determined by the Board, excluding the Chairman. The remuneration of the Non Executive Directors is determined by the Board, including the Non-Executive Directors.

The scope of the Committee includes:

- Remuneration policy and its specific application to the CEO & Executive Directors and general application to the Key Management Personnel (KMP) below the main Board;
- The remuneration and incentive framework, including any proposed equity incentive awards including terminal benefits/pension rights for the CEO, any other Executive Directors and KMP;
- Recommendations and decisions (as relevant) on remuneration and all incentive awards including any equity incentive awards and terminal benefits/pension rights for the CEO, any other Executive Directors and KMP;
- Evaluating the performance of the CEO, management development plans and succession planning;
- Reviewing/monitoring evaluation of performance of KMP and their management development and succession planning;
- Strategic human resources policies;
- Effective communication with shareholders on the remuneration policy and the committee's work on behalf of the Board through a remuneration committee report;
- Recommending and ensuring that the appropriate service contracts are available for Executive Directors; and
- Determining the terms of any compensation package in the event of early termination of the contract of any Executive Director.

The Remuneration Committee comprises of xxxx Non-Executive Directors, one third of whom, including the Chairman are also independent in compliance with the requirements of the Corporate Governance Code.

(Names of the Committee members)

Brief profiles of the members are given below.

(Brief profiles of the members)

## **Remuneration policy**

### **General**

The Remuneration Committee determines the Group's policy on Executive Directors' and Key Management Personnel's remuneration. The objectives of the policy are:

- to reward Executive Directors and Key Management Personnel in a manner that ensures that they are properly incentivised and motivated to perform in the best interests of the Company over the long term; and
- to provide the level of remuneration required to attract and retain Executive Directors and Key Management Personnel of an appropriate caliber.

Salaries and other benefits are reviewed annually. The Remuneration Committee takes into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from specialist consultants. The skills, experience of the individual and his/ her level of responsibility are also taken into account.

Consistent with this policy, the benefit packages awarded to Executive Directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration, designed to motivate them, but not to detract from the goals of corporate governance.

The report should cover the following disclosures.

- Remuneration policy for:
  - Basic salaries
  - Perquisites and benefits



- Performance bonus
- Pension entitlements
- Long Term Incentive Plan
- Shareholding guidelines (if any)
- Employee Share Schemes
- Directors' compensation in total and for each of the following categories:
  - Short term benefits
  - Post-employment benefits
  - Other long term benefits
  - Termination benefits; and
  - Share-based payment
- Meetings
  - Number of meetings
  - Attendance at the meetings
- Committee Evaluation

Signature of the Chairman

Name

Remuneration Committee

Colombo, Sri Lanka

Date

**SCHEDULE E**  
**PROVISIONS ON THE DETERMINATION OF PERFORMANCE-RELATED REMUNERATION**

- Remuneration Committees should consider whether the Executive Directors should be eligible for annual bonuses. If so, performance conditions should be relevant, stretched and designed to enhance performance of the business and shareholder value. Upper limits should be considered. There may be a case for part payment in shares to be held for a significant period.
- Remuneration Committees should consider whether the Executive Directors should be eligible for benefits under long-term incentive schemes. Traditional share option schemes should be weighed against other kinds of long-term incentive schemes. In normal circumstances, shares granted or other forms of deferred remuneration should not vest, and options should not be exercisable, in less than three years. Eligible Directors should be encouraged to hold their shares for a further period after vesting or exercise, subject to the need to finance any costs of acquisition and associated tax liability.
- Any new long-term incentive schemes in excess of three years which are proposed should be approved by shareholders and should preferably replace existing schemes or at least form part of a well considered overall plan, incorporating existing schemes. The total rewards potentially available should not be excessive.
- Payouts or share option grants under all incentive schemes, including new grants under existing share option schemes, should be subject to challenging performance criteria reflecting the Company's objectives. Consideration should be given to criteria which reflect the Company's performance relative to a group of 'comparator companies' in some key variables such as total shareholder return.
- Grants under executive share option grants and other long-term incentive schemes should normally be phased rather than awarded in one large block.
- Remuneration Committees should consider the pension consequences and associated costs to the Company of basic salary increases and other changes in remuneration, especially for Directors close to retirement.

- Performance related remuneration schemes should not be applied retrospectively.
- In general, neither annual bonuses nor benefits in kind should be pensionable.
- Non-Executive Directors should not be eligible to performance-based remuneration schemes including share options.

**SCHEDULE F**  
**ROLE OF THE COMPANY SECRETARY**

Company Secretary plays a major role in day to day operations of a Company. Various Statutes have legalised the duties and responsibilities of the Company Secretary while certain duties and responsibilities are deemed. Appointment and the removal of the Company Secretary should be a matter for the Board as a whole.

The following list is not an exhaustive list of responsibilities of the Company Secretary, but provides generally accepted duties and responsibilities in a broader perspective.

**Board Meetings**

- Facilitating the smooth operation of the Company's formal decision making and reporting machinery;
- Organising Board and Board committee meetings (e.g. audit, remuneration, nomination committees etc.);
- Formulating meeting agendas with the Chairman and/or the Chief Executive and coordinating with the management on Board papers, memoranda or presentations for the meeting;
- Collecting, organising and distributing such information, documents or other papers required for the meeting;
- Ensuring that all proceedings of the meetings are minuted and that the minute books are maintained with signed copies of the minutes; and
- Monitoring that all Board Committees are properly constituted and provided with clear terms of reference.

**General Meetings**

- Ensuring that an annual general meeting is held in accordance with the requirements of the Companies Act and the Company's Articles of Association;
- Obtaining relevant approvals of all documentation for circulation to shareholders;
- Preparing and issuing notices of meetings, and distributing proxy forms;
- Coordinating responses for any shareholder question for which notice has been given or is anticipated;

- Overseeing the arrangements for the meetings including attendance, logistics and security;
- Ensuring that proxy forms are correctly processed and that the voting is carried out properly and captured accurately, and also being prepared for voting by a poll in case such is required;
- Ensuring the previous meeting minutes are available for scrutiny at the general meeting; and
- Ensuring that minutes of the meetings are maintained and they are adopted at the next Board Meeting following the general meeting.

### **Memorandum & Articles of Association**

- Ensuring that the Company complies with its Memorandum and Articles of Association; and
- Drafting and incorporating amendments in accordance with correct procedures.

### **Reports, Accounts and Documentation**

- Coordinating the publication and distribution of the Company's annual report and accounts and interim statements, in consultation with the Company's internal and external advisers, in particular, when preparing the Directors' report;
- Preparing the Directors' Report as specified in the Companies Act and obtaining Board's approval;
- Maintaining the following registers:
  - members
  - company charges
  - directors and secretary
  - directors' interests in shares and debentures
  - interests in voting shares
  - debenture holders (if applicable)
  - interests register (i.e. record on related parties and related party transactions)
  - seal register
- Filing information with the Registrar of Companies to report certain changes regarding the Company or to comply with requirements for periodic filing. Of particular importance in this regard are:
  - annual returns

- report & accounts
- amended Memorandum & Articles of Association
- returns of allotments
- notices of appointment, removal & resignation of Directors and the Secretary
- notices of removal or resignation of the Auditors
- change of registered office
- resolutions in accordance with the Companies Act
- Signing share certificates.

### **Corporate Governance**

- Continually reviewing developments in corporate governance;
- Facilitating the proper induction of Directors into their role;
- Advising and assisting the Directors with respect to their duties and responsibilities, in particular compliance with company law and other relevant legislations and regulations including but not limited to SEC, CSE, SLAASMB, CBSL, IBSL;
- Acting as a channel of communication and information for non-Executive Directors;
- Acting as a channel of communication with shareholders and ensuring good general shareholder relations; and
- Making necessary disclosures on related parties and related party transactions required by laws and regulations.

### **Stock Exchange Requirements**

- Monitoring and ensuring compliance with the listing rules; and
- Managing relations with the Stock Exchange through the Company's brokers

### **Other**

- Assisting the Board in implementing and administering Directors' and employees' share participation schemes;
- Ensuring the safe custody and proper use of any Company seals;
- Attending to the receipt, co-ordination and distribution of official correspondence received by the Company, sent to its registered office;

- Coordinating the inspection of Company documents as required by laws in consultation with the Board;
- Ensuring that all business letters, notices and other official publications of the Company show the name of the Company and any other information as required by the statutes and that Company name plates are displayed in a conspicuous place;
- Maintaining a record of the group's structure;
- Monitoring and laying in place procedures which allow for compliance with relevant regulatory and legal requirements, particularly under the Companies Acts including legal requirements on retention of documents;
- Retaining the minimum set of records required for commercial reasons and ensuring that procedures are in place to allow adequate historical archive to be maintained in compliance with statutory requirements;
- Signing documents or records of proceedings requiring authentication by a Company;
- Obtaining legal advice in consultation with the Board on company law, SEC, CSE and other relevant legislations in ensuring that the Company complies with all applicable laws and regulations;
- Coordinating legal matters relating to alleged offences in company law, SEC, CSE and other relevant regulations

In addition to the above, the following provisions also should be considered by companies.

- Where a body corporate holds the position of the Company Secretary, requiring them to designate a person by name as their representative dealing with secretarial matters of the Company.
- Informing any change in Company Secretary to CSE.

**SCHEDULE G**  
**MATTERS FOR CONSIDERATION WHEN MAKING “GOING-  
CONCERN” ASSUMPTIONS**

When preparing financial statements the Directors should make an assessment of an Enterprise’s ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the Enterprise or to cease trading, or has no realistic alternative but to do so. When the Directors, in making their assessment, are aware of material uncertainties related to events or conditions which cast significant doubt on the Enterprise’s ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, the fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the Enterprise is not considered a going concern.

In assessing whether the Going Concern assumption is appropriate, the Directors should take into account all information available in respect of the foreseeable future, which should be at least (but not limited to) eighteen months from the balance sheet date. The degree to which the going concern assumption should be considered depends on the circumstances applicable. When an enterprise has a history of profitable operation and ready access to financial resources, a conclusion on the ability to operate as a going concern may be reached without detailed analysis. In other cases, the Directors may have to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing, before they can satisfy themselves on the ability of the Enterprise to operate as a going concern.

Indications that continuation as a going concern may be questionable, can come from financial statements or other sources. Examples of these indications are listed below. The listing is not all-inclusive, nor does the existence of one or more always signify that the Going Concern assumption needs to be questioned.

Financial Indications

- net liability and/or net current liability position;
- fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets;
- default on some term-loan agreements, and potential breach of contracts;



- adverse key financial ratios;
- substantial operating losses;
- major losses or cash flow problems which have arisen since period-end, which threaten the Enterprise's continued existence;
- arrears or discontinuation of dividends;
- inability to pay creditors on due dates;
- difficulty in complying with the terms of loan agreements;
- change from credit to cash-on-delivery transactions with suppliers;
- inability to obtain financing for essential new product development or other essential investments;
- substantial sales of fixed assets not intended to be replaced; and
- effects on fair value of assets, liabilities etc.

#### Operating Indications

- fundamental changes in the market or technology to which the Enterprise is unable to adjust adequately;
- loss of Key Management Personnel without replacement;
- loss of major market, franchise, license or principal supplier;
- labour difficulties or shortage of important supplies; and
- loss of key suppliers or customers, or technical developments which render a key product obsolete.

#### Other Indications

- non-compliance with capital or statutory requirements;
- pending legal proceedings against the Enterprise that may, if successful, result in judgments that cannot be met;
- changes in legislation or government policy, which can have a significant impact on the business; and
- issues which involve a range of possible outcomes so wide that an unfavourable result can affect appropriateness of the going concern basis.

While all of the above shall be considered in determining whether the Enterprise is a going concern, the existence of a net liability and/or net current liability position, resulting in inability to pay debts as they become due in the normal course of business may indicate that the

Enterprise is insolvent. If the Directors hold a different view, they should disclose the mitigating factors on the basis of which the Going Concern assumption is sustained.

**If the Enterprise is a going concern, the disclosure should be:**

*“After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Corporate Governance Code, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the Going Concern basis in preparing the financial statements.”*

If there are financial indications, operating indications and other indications which cast doubt on the appropriateness of the Going Concern assumption, Directors should determine the extent of the issue and the Company’s ability to respond to it, and explain the factors which give rise to the issue and how they intend to resolve it.

If it is unlikely the Company and Group will continue in operation for the foreseeable future, the Directors should no longer prepare the statements using the Going Concern assumption and should state that in their opinion, the Company/Group is no longer a Going Concern.

**SCHEDULE H**  
**SUMMARY OF DISCLOSURES**

The following disclosures shall be made in the Annual Report of the Company.

A. Annual Report

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Chairman and CEO	If Chairman and CEO is one and the same person, disclose the name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.	A.2.1 and A.5.7
Board Balance	<ul style="list-style-type: none"> <li>• Should identify the Independent Non-Executive Directors.</li> <li>• If a Non-Executive Director is identified as 'Independent', notwithstanding the existence of any of the following factors, the reason for such determination should be disclosed.</li> <li>• A Director is not considered independent if he/she:               <ul style="list-style-type: none"> <li>• has been employed by the Company, subsidiary or parent of the Company during the period of two years immediately preceding appointment;</li> <li>• currently has or has had within last two years immediately preceding appointment as Director, a Material Business Relationship with the Company, whether directly or indirectly;</li> <li>• has a close family member who is a Director or chief executive officer or Key Management Personnel (and/or an equivalent</li> </ul> </li> </ul>	A.5.5

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
	<p>position);</p> <ul style="list-style-type: none"> <li>• is a significant shareholder of the Company or an officer of, or otherwise associated directly with, a significant shareholder of the Company;</li> <li>• has served on the Board of the Company continuously for a period exceeding nine years from the date of the first appointment;</li> <li>• is employed in another company or business: <ul style="list-style-type: none"> <li>○ in which a majority of the other Directors of the Company are employed or are Directors; or</li> <li>○ in which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or</li> <li>○ that has a Significant Shareholding in the Company or with which the Company has a Business Connection;</li> </ul> </li> <li>• is a Director of another company: <ul style="list-style-type: none"> <li>○ in which a majority of the other Directors of the Company are employed or are Directors; or</li> <li>○ that has a Business Connection with the Company or Significant Shareholding in the Company;</li> </ul> </li> <li>• has a Material Business Relationship or a Significant</li> </ul>	

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
	<p>Shareholding in another company or business:</p> <ul style="list-style-type: none"> <li>○ in which a majority of the other Directors of the Company are employed or are Directors; and/or</li> <li>○ which has a Business Connection with the Company or Significant Shareholding in the same.</li> </ul> <p>(Please refer Section A.5.5 for relevant definitions)</p>	
Nomination Committee	The Chairman and members of the Nomination Committee should be identified.	A.7.1
Appointment of New Directors	<p>When new Directors are appointed, the following details should be disclosed.</p> <ul style="list-style-type: none"> <li>• a brief resume of each such Director;</li> <li>• the nature of his expertise in relevant functional areas;</li> <li>• the names of companies in which the Director holds directorships or memberships in board committees; and</li> <li>• whether such Director can be considered independent.</li> </ul>	A.7.3
Appraisal of Board Performance	Should disclose how performance evaluations have been conducted.	A.9.3
Board Related Disclosures	<p>The following details pertaining to each Director should be disclosed.</p> <ul style="list-style-type: none"> <li>• name, qualification and brief profile;</li> <li>• the nature of his/her expertise in relevant functional areas;</li> <li>• immediate family and/or material business relationships with other Directors of the Company;</li> </ul>	A.10.1

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
	<ul style="list-style-type: none"> <li>• whether executive, non-executive and/or independent Director;</li> <li>• names of listed companies in Sri Lanka in which the Director concerned serves as a director;</li> <li>• names of other companies in which the Director concerned serves as a Director, provided that where he/she holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he/she holds other directorships in such companies;</li> <li>• number/percentage of Board Meetings of the Company attended during the year;</li> <li>• the total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity;</li> <li>• names of Board Committees in which the Director serves as the Chairman or a member; and</li> <li>• number/percentage of committee meetings attended during the year.</li> </ul>	
Disclosure of Remuneration	<ul style="list-style-type: none"> <li>• A Statement of Remuneration Policy;</li> <li>• Details of remuneration of the Board as a whole;</li> <li>• Names of Directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.</li> </ul>	B.3 and B.3.1

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Major and Material Transactions	<p>All Material Transactions entered into by the Company should be disclosed.</p> <p>Further, prior to a Company engaging in or committing to a 'Major related party transaction' with a related party, the purpose and all material facts of such transaction should be disclosed.</p>	C.3 and C.3.1
Audit Committee	<ul style="list-style-type: none"> <li>• Names of the Members of the Audit Committee should be disclosed.</li> <li>• Basis for determining the independence of Auditors.</li> </ul>	D.3.4
Code of Business Conduct and Ethics	<ul style="list-style-type: none"> <li>• Should disclose whether the Company has a Code of Business Conduct &amp; Ethics for Directors and Key Management Personnel.</li> <li>• Should also disclose an affirmative declaration that they have abided by such Code.</li> <li>• The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.</li> </ul>	D.4.1 and D.4.2
Going Concern	Should report that the Company is a going concern, with supporting assumptions and qualifications as necessary	D.1.5
Communication with shareholders	<p>The Company should disclose the policy and methodology for communication with shareholders.</p> <p>The Company should disclose how they implement the above policy and methodology.</p> <p>The Company should disclose the contact person for such communication.</p> <p>There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the</p>	C.2.2, C.2.3, C.2.4, C.2.5, C.2.6, C.2.7

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
	<p>Company.</p> <p>The Company should decide the person to contact in relation to shareholders' matters.</p> <p>The process for responding to shareholder matters should be disclosed.</p>	

B. Remuneration Committee Report

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Members of Remuneration Committee	The names of members of Remuneration Committee should be disclosed in the Remuneration Committee Report.	B.1.3

C. Directors' Report

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Directors' Report	<p>Should contain the following declarations made by the Directors:</p> <ul style="list-style-type: none"> <li>• The Company has not engaged in any activity, which contravenes laws and regulations;</li> <li>• The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested;</li> <li>• The Company has made all endeavours to ensure the equitable treatment of shareholders;</li> <li>• The business is a going concern, with supporting assumptions or qualifications as necessary; and</li> <li>• They have conducted a review of internal controls covering financial,</li> </ul>	D.1.2



	operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith.	
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#### D. Financial Statements

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Financial Statements	<ul style="list-style-type: none"> <li>• The Board of Directors should include a Statement of Responsibility for the preparation and presentation of financial statements.</li> <li>• Auditors should also have a statement about their reporting responsibility</li> </ul>	D.1.3
Related Party Transactions	Should disclose the related parties and related party transactions as specified by Sri Lanka Accounting Standards, SEC regulations and other related regulations.	D.1.7

#### E. Management Report

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Management Report	<p>Should include a 'Management Discussion and Analysis Report' discussing at least the following issues:</p> <ul style="list-style-type: none"> <li>• industry structure and developments;</li> <li>• opportunities and threats;</li> <li>• risks and concerns;</li> <li>• internal control systems and their adequacy;</li> <li>• social and environmental protection activities carried out by the Company;</li> <li>• financial performance;</li> </ul>	D.1.4

	<ul style="list-style-type: none"> <li>• material developments in human resources/industrial relations; and</li> <li>• prospects for the future.</li> </ul>	
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F. Corporate Governance Report

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Corporate Governance Report	Should disclose the manner and extent to which the Company has complied with the principles and provisions of the Code.	D.5.1

G. Audit Committee Report

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Audit Committee Report	Should set out the work carried out by the Committee.	D.3.3

H. Statement on Internal Control

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Statement on Internal Control	<p>Should disclose the following as a minimum.</p> <p>(a) The Board should summarise the process it has applied in reviewing the design and effectiveness of the system of internal control.</p> <p>(b) It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report.</p> <p>(c) An acknowledgement by the Board that it is responsible for the Company's system of internal control and for reviewing its design and effectiveness. It should also</p>	D.1.3 and D.2.3

	<p>explain that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.</p> <p>(d) The Directors should disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review and whether it is regularly reviewed by the Board.</p> <p>(e) The Board has to disclose if it has failed to conduct a review of design and effectiveness of the Company's system of internal control.</p> <p>(f) The Board should ensure that its disclosures provide meaningful, high level information and do not give a misleading impression.</p> <p>(g) Where material subsidiaries, joint ventures and associates have not been dealt with in applying this guidance, as part of the group, that fact should be disclosed.</p> <p>(h) The confirmation by the Board:</p> <p>The Board should confirm in its report that the financial reporting system has been designed to provide reasonable assurance regarding the</p>	
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	<p>reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.</p> <p>(i) Should be signed by the Directors who signed the financial statements and the chairman of the Audit Committee.</p>	
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#### I. Sustainability Reporting

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Sustainability Reporting	<p>Disclose the policies and procedures adopted to develop a sustainable business in the context of;</p> <ul style="list-style-type: none"> <li>• Sustainable economic performance;</li> <li>• The Environment;</li> <li>• Labor Practices;</li> <li>• Society;</li> <li>• Product Responsibility;</li> <li>• Stakeholder identification, engagement &amp; effective communication;</li> </ul> <p>Sustainable reporting and disclosure should be formalized as part of the Company's reporting processes and take place on a regular basis.</p>	G.1 to G.1.7

**SCHEDULE I**  
**CODE OF BUSINESS CONDUCT & ETHICS**

The Code of Business Conduct & Ethics of a company referred to in paragraph D.4 should cover the following aspects:

- conflict of interest;
- bribery and corruption;
- entertainment and gifts;
- accurate accounting and record-keeping;
- corporate opportunities;
- confidentiality;
- fair dealing;
- protection and proper use of Company assets;
- compliance with laws, rules and regulations (including insider trading laws); and
- encouraging the reporting of any illegal or unethical behaviour.

**Conflicts of interest**

A “conflict of interest” occurs when a individual’s private interest interferes (or even appears to interfere) in any way with the interests of the Company as a whole. A conflict situation can arise when a Director or a Key Management Personnel performs or has such interests that may make it difficult to perform his company work objectively and effectively. Conflicts of interests also arise when a Director or Key Management Personnel or a member of their family, receive improper personal benefits as a result of his/her position in the Company. Loans to, or guarantees of obligations of such persons are of special concern. The Company should have a policy prohibiting such conflicts of interest and providing a means for Directors or Key Management Personnel to communicate potential conflicts to the Company.

**Bribery and corruption**

Corruption causes distortion in markets and harms economic, social and political development, particularly in developing countries. It is wholly unacceptable for employees of the Company to be involved or implicated in any way in corrupt practices. The Company and employees must ensure that:

- they do not, directly or indirectly, offer, promise or give any gift, payment or other benefit to any person for the purposes of inducing or rewarding improper conduct or influencing any decision by a public official to the advantage of the Company or parent/associate company;
- they do not, directly or indirectly, solicit, accept or receive any gift, payment or other advantage from any person as a reward or inducement for improper conduct; and
- their activities do not otherwise contravene any applicable anti-corruption measures.

### **Entertainment and gifts**

The Company and employees must not actively solicit or demand any form of entertainment or gift from any person or organization outside the Company. The Company and employees are permitted to offer or accept business entertainment and gifts without prior approval, provided that the entertainment or gift in question is:

- modest;
- appropriate and consistent with reasonable business practice; and
- permissible under all applicable laws.

The following are examples of entertainment and gifts which are usually acceptable without prior approval:

- Occasional drinks and meals.
- Occasional attendance at sports, theatre and other cultural events.
- Gifts of a token or modest amount.

The Company and employees must ensure that they do not, through the provision of any gift or hospitality, seek to influence any public official by providing any personal advantage, either to that official or to any other person at his request or with his assent or acquiescence. In this context, gifts to public officials will rarely be appropriate if they are of anything other than nominal value.

### **Accurate accounting and record-keeping**

Honest, accurate and objective recording and reporting of information, both financial and non-financial is essential to:

- Company's credibility and reputation;

- Its ability to meet its legal, tax, audit and regulatory obligations; and
- Informing and supporting business decisions and actions by the Company.

All data that the Company and employees create, whether financial or non-financial must accurately reflect the transactions and events occurred.

The Company and employees must ensure that they follow all applicable laws, external accounting requirements and the Company procedures for reporting financial and other business information. All employees must ensure that they manage their business records in accordance with the applicable records, management policy and procedures.

### **Corporate opportunities**

Directors and Key Management Personnel should be prohibited from:

- (a) taking for themselves personally, opportunities that are discovered through the use of corporate property, information or position;
- (b) using corporate property, information, or position for personal gain; and
- (c) competing with the Company.

Directors and Key Management Personnel owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

### **Confidentiality**

Directors and Key Management Personnel should maintain the confidentiality of information entrusted to them by the Company or its customers, except when this disclosure is authorised or legally mandated. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed.

### **Fair dealing**

Each Director and Key Management Personnel should endeavour to deal fairly with the Company's customers, suppliers, competitors and employees. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair – dealing practice.

### **Protection and proper use of company assets**

All Directors and Key Management Personnel should protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. All Company assets should be used for legitimate business purposes.

### **Compliance with laws, rules and regulations (including insider trading laws)**

The Company should proactively promote compliance with laws, rules and regulations, including insider trading laws. Insider trading is both unethical and illegal, and should be dealt with decisively.

### **Encouraging the reporting of any illegal or unethical behaviour**

The Company should proactively promote ethical behaviour. The Company should encourage employees to talk to supervisors, managers or other appropriate personnel when in doubt about the best course of action in a particular situation. Additionally, employees should report violations of laws, rules, regulations or the Code of Business Conduct and Ethics, to appropriate personnel. To encourage employees to report such violations, the Company must ensure that employees know that the Company will not allow retaliation for reports made in good faith.



**SCHEDULE J**  
**DECLARATION OF INDEPENDENCE**

- A. I am a Non-Executive Director of .....(Company) being so appointed on .....
- B. I have been/have not been employed by the Company, during the period of two years immediately preceding my appointment as director of the Company;
- C. I currently have/do not have a Material Business Relationship with the Company, directly or indirectly;
- D. I had/did not have during the period of two years immediately preceding appointment as director, a Material Business Relationship with the Company, directly or indirectly;
- E. I have/ do not have a Close Family Member(s) who is a director or chief executive officer (or equivalent position) in the Company;
- F. I have/ do not have a Significant Shareholding in the Company;
- G. I have/have not served on the Board of the Company for a period exceeding nine years from the date of the first appointment;
- H. I am/am not employed in another company or business:
  - (i) in which a majority of the other directors of the Company are employed or are directors; or
  - (ii) in which a majority of the other directors of the Company have a Significant Shareholding or Material Business Relationship; or
  - (iii) that has a Significant Shareholding in the Company or with which the Company has a Business Connection;
- I. I am/am not a director of another company:
  - (i) in which a majority of the other directors of the Company are employed or are directors; or
  - (ii) that has a Business Connection with the Company or a Significant Shareholding;
- J. I have/do not have Material Business Relationship or a Significant Shareholding in another company or business:

- (i) in which a majority of the other directors of the Company are employed or are directors; and/or
  - (ii) which has a Business Connection with the Company or Significant Shareholding in the same;
- K. Disclosure of such other information which the applicant believes could reasonably be construed to have a bearing on the independence of such director.

## **SCHEDULE K**

### **THE RESPONSIBILITIES OF DIRECTORS IN MAINTAINING A SOUND SYSTEM OF INTERNAL CONTROL**

Maintaining sound system of internal controls to safeguard shareholders' investment and the Company's assets is the responsibility of the Board and top management.

The Board should identify principal risks on an ongoing basis and ensure the implementation of appropriate systems to evaluate and manage these risks by considering the following factors.

- (a) The adequacy of the whole risk management framework of the Company
- (b) The nature and extent of risks facing the Company
- (c) The extent and categories of risk which it regards as acceptable for the Company to bear
- (d) The likelihood of the risks concerned materializing
- (e) The Company's ability to reduce the incidence of risks that do materialize and their impact on the business
- (f) The costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.

It is the role of management to implement Board policies on risk and control. In fulfilling its responsibilities, management should identify and evaluate the risks faced by the Company for consideration by the Board and design, operate and monitor a suitable system of internal control which implements the policies adopted by the Board.

The Board and top management should establish an appropriate control environment which includes;

- (a) Written communication of Company values, the code of conduct, policies and procedures
- (b) The functions of the Board of Directors and its committees
- (c) Management's philosophy and operating style

- (d) The Company's organizational structure and methods of assigning authority and responsibility
- (e) Clearly defined authorities and responsibilities for each manager, employee and department

All employees have responsibility for internal controls as part of their accountability for achieving objectives. Employees as a whole should have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control.

Reviewing the design and effectiveness of the Company's internal control systems and management information systems including systems for compliance with applicable laws, regulations, rules, directives and guidelines is an essential part of the Board's responsibilities.

The Board should define the process to be adopted for its review of the design and effectiveness of internal control. This should encompass both the scope and frequency of the reports it receives and reviews during the year, and also the process for its assessment.

The Board should form its own view on the design and effectiveness of the Company's internal control systems after due and careful enquiry based on the information and assurances provided to it. Management is accountable to the Board for monitoring the Company's internal control systems and for providing assurance to the Board that it has done so.

Effective monitoring on a continuous basis is an essential component of a sound system of internal control. The Board cannot, however, rely solely on the embedded monitoring processes within the Company to discharge its responsibilities. It should regularly receive and review reports on internal control.

The Board has to set the audit committee to carry out the reviews of internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls.

An effective and comprehensive internal audit of internal control systems carried out by operationally independent, appropriately trained and competent staff should be established.

Where an internal audit function does not exist, assess whether there are other means of obtaining sufficient assurance of regular review and appraisal of the effectiveness of the system of internal controls within the Company.

The Board should review reports by considering;

- (a) what are the significant risks and assess how they have been identified, evaluated and managed
- (b) the design and effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failures or weaknesses in internal control that have been reported
- (c) whether necessary action is being taken promptly to remedy any significant failings or weaknesses
- (d) whether the findings indicate a need for more extensive monitoring of the system of internal control.

#### The Board's Statement on Internal Control

The Board is required by the Code of Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka to disclose whether there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review, whether it is regularly reviewed by the Board and accords with such direction.

In addition, the Board is also required to present a report on the Company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. To fulfill this requirement, the Board should disclose the following as a minimum.

- (a) The Board should summarise the process it has applied in reviewing the design and effectiveness of the system of internal control.
- (b) It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report.
- (c) An acknowledgement by the Board that it is responsible for the Company's system of internal control and for reviewing its design and effectiveness. It should also explain that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements of loss.

- (d) The Directors should disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review and whether it is regularly reviewed by the Board.
- (e) The Board has to disclose if it has failed to conduct a review of design and effectiveness of the Company's system of internal control.
- (f) The Board should ensure that its disclosures provide meaningful, high level information and do not give a misleading impression.
- (g) Where material subsidiaries, joint ventures and associates have not been dealt with in applying this guidance, as part of the group, that fact should be disclosed.
- (h) The confirmation by the Board:

The Board should confirm in its report that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with applicable accounting standards and regulatory requirements.

- (i) Should be signed by the directors who signed the financial statements and the chairman of the Audit Committee.

**Corporate Governance Committee (formed in April 2011)**

Mr. A D B Talwatte, Managing Partner - Ernst & Young

Mr. D T S H Mudalige, President - CA Sri Lanka

Mr. S Rajapakse, Vice President - CA Sri Lanka

Mr. A Herath, Partner – Ernst & Young

Mr. A S Ratnayake, Director General - Sri Lanka Accounting & Auditing Standards Monitoring Board

Ms. T M J Y P Fernando, Director - Bank Supervision - Department of Bank Supervision

Ms. K M A N Daulagala, Director - Non-Bank Supervision - Department of Non-Bank Supervision

Ms. Surana Fernando, Director – Corporate Affairs - Securities and Exchange Commission of Sri Lanka

Ms. Surekha Sellahewa, Chief Executive Officer - Colombo Stock Exchange

Ms. Damayanthi Fernando, Director Legal - Insurance Board of Sri Lanka

Mr. Ronnie Peiris, Group Finance Director - John Keells Holdings Ltd.

Mr. Sarath Ganegoda, Director/Group CFO - Hayleys PLC

Dr. Harsha Cabral, Attorney-at-Law – Law Office of Dr. Harsha Cabral

Mr. Arittha Wikramanayake, Precedent Partner, Nithya Partners

Ms. Dilani Alagaratnam, President- Human Resource, Legal & Secretariat - John Keells Holdings Ltd.

Mr. A Nirmal Fernando, Partner - KPMG Ford Rhodes Thornton & Company

Mr. D K Hettiarachchi, Registrar of Companies – Company Law Advisory Commission

Mr. Nihal Fonseka, General Manager/CEO - DFCC Bank

Mr. Amitha Gooneratne, Managing Director - Commercial Bank of Ceylon Ltd.

Mr. R. Theagarajah, Managing Director - Hatton National Bank PLC

Mr. Deva Rodrigo, Retired Territory Senior Partner - PricewaterhouseCoopers

Ms. Rohini Nanayakkara, Chairperson - Lanka Orix Leasing Company PLC

Mr. Trevine Jayasekara, Director - Brandix Lanka Ltd.

Ms. Priyanthi Peiris, Consultant - Colombo Stock Exchange

