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THE INSTITUTE OF  
**CHARTERED** ACCOUNTANTS  
OF SRI LANKA

# CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017



CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017

**CODE OF BEST PRACTICE**  
**ON**  
**CORPORATE GOVERNANCE**  
**2017**

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

CA Sri Lanka has been at the forefront of issuing Corporate Governance Codes in Sri Lanka. The first titled “Code of Best Practice on matters related to financial aspects of Corporate Governance” was issued in 1997. Thereafter, in 2003, 2008 and 2013 the Codes were reviewed and revised through a consultative process.

At present the Code of Best Practice of Corporate Governance of 2013 is widely used by Companies that are publicly listed and other larger Companies which see value in the practice of governance. The current review was initiated by the CA Council of 2014/15 towards the latter part of its term under the presidency of Arjuna Herath and continued through the subsequent Council of 2016/17 under the Presidency of Lasantha Wickremasinghe. The members of the Committee comprised of: Regulators from the Securities & Exchange Commission, the Colombo Stock Exchange, Insurance Board of Sri Lanka, Central Bank of Sri Lanka, Registrar of Companies, Sri Lanka Accounting and Auditing Standards Monitoring Board, and representatives of Public Listed Companies, the Institute of Directors, Corporate Lawyers, Practicing Accountants and representatives from the CA Council. A list of representatives of the Committees who participated in each of the aforementioned Codes is given in Appendix 1. Their invaluable contribution in knowledge, expertise and time in no small way enabled well considered inclusions of provisions from global best practice, emerging local challenges and contemporary issues. I would be failing if I do not thank all these Committees for their unstinting co-operation and the present Committee for their professional input and active participation over this two-year period.

The purpose of Corporate Governance has been described over the past two and a half decades in many forms, conveying the same core principles but building on experience, developments and investor perspectives.

The fundamental aspect requiring codification of Corporate Governance can be described as agency problems arising from the potential, for diverse interests that can give rise to selective differential actions benefiting one group over the other. The agency problems can be “horizontal” between the controlling owners and the minority shareholders, or “vertical” between the managers and shareholders. Codes of Corporate Governance through Board, composition, nomination and election of independent directors, determinants of independence, related party committees, approvals and disclosures, independent audits, and regulations for minority protection endeavour to address horizontal factors.

On the other hand, vertical factors between management and shareholders are covered through; the Boards role, devolutions of powers to execute strategy, succession planning, guidelines for performance based pay, remuneration committees, disclosure and claw back provisions, codes of ethics, related party provisions and well thought out contracts of employment.

In addition to the agency problem other key components of effective board practices are contained in Governance Codes. These include; adaptive business strategy and risk management, competent execution, good governance and ethics, accountability, transparency, probity, stakeholder inclusivity, economic sustainability, and environmental responsibility, all towards ensuring the long-term success and sustainability of the business entity.

The skills to run a corporate board successfully should not be underestimated. The leadership of the Chairman, the openness of discussion, robust comprehensive knowledge and experience, diversity among board members, clarity on the role of the executive and non-executive, continuous training and development, authority to seek advice and the strength of character to dissent while respecting majority rule are important ingredients Board members should possess. Board members should act on a fully informed basis in good faith, with due diligence and care and in the best interest of the Company, Shareholders and other significant Stakeholders.

The Code of 2017 builds on the previous Codes to strengthen best practice in governance in the context of global developments relevant to Sri Lanka, emerging contemporary matters of governance and challenges with greater importance to the Sri Lankan capital market. Some of the key changes are;

- Board Composition: An annual review of the composition of the board against a pre-defined criterion of skill and knowledge on the board; consideration of being fit and proper; gender representation; increase in the number of non-executives and consequent independent non-executives, in effect by a minimum of one on the board and committees.
- Board Meetings: Board to agree on structure, process, regularity, form and content of meetings; recording concisely in minutes, deliberations and dissents; chairman's role in setting the agendas and seeking out views of all directors; time line to deliver minutes to directors.
- Board's Role; more clarity on delegation of authority to the executive; recognition of sustainable business development and integrated reporting; cyber security; code of conduct & ethics; annual review and reporting on internal controls and risk.
- Expanding provisions of director's training and their authority to seek expert advice.

- Specimen Audit Committee Charter and enhanced role for the Audit Committee on internal controls and risk reviews.
- Introduction of a Related Party Transaction Committee in line with the provisions of the Colombo Stock Exchange.
- A requirement for reporting on Cyber Security and impact from internet of things.
- A requirement for Environment, Society & Governance (ESG) reporting.
- Expanding Corporate Reporting to include: Integrated reporting considerations, annual internal controls and risk reviews, CEO and CFO declaration, compliance with Code of Conduct & Ethics and fair value of Property, Plant and Equipment.

I take this opportunity to thank the President and Council of the Institute of Chartered Accountants of Sri Lanka for the confidence placed in me by appointing me to take forward this initiative as the Co-Chair of the Committee, also Sujeewa Mudalige, my Co-Chair for supporting me in steering through contentious issues and enabling consensus.

Securities Regulations, Accounting Standards, Audit & Assurance Standards, Company Law and other industry specific laws, have the force of legislation. Governance on the other hand is a voluntary code by which corporates demonstrate their commitment to strategy and execution in a sustainable manner complying with these laws and regulations with the right set of skills, knowledge and expertise on its boards, thereby delivering results ethically, recognizing all significant stakeholder interests.

A handwritten signature in black ink, appearing to read 'Asite Talwatte', written over a horizontal line.

Asite Talwatte  
Chairman  
Corporate Governance Committee

13 December 2017

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

I am pleased to send this message to the Code of Best Practice on Corporate Governance 2017 which was formulated by the Institute of Chartered Accountants 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 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, and was subsequently updated in 2003, 2008 and 2013.

Corporate Governance is a dynamic force that keeps evolving. Therefore, taking into consideration the global changes and the need to adhere to these changes locally, a committee was appointed in 2016 to review and revise the Code of Best Practice on Corporate Governance, which was issued in 2013. This revision took into consideration relevant developments in best practices worldwide and emerging matters specific to Sri Lanka. This publication is a result of the endeavours of this committee which was chaired by Mr. Asite Talwatte.

I wish to express my appreciation and acknowledge the valuable contribution made by the Corporate Governance Committee, which was represented by the Institute of Chartered Accountants of Sri Lanka, Securities & Exchange Commission of Sri Lanka, Colombo Stock Exchange, Sri Lanka Accounting & Auditing Standards Monitoring Board, 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 the technical division of the institute for producing this publication expeditiously.

I encourage you to utilize this important publication to the maximum benefit and to adhere to the globally accepted code of best practices on corporate governance which should be part and parcel of your professional life.



Lasantha Wickremasinghe  
President  
The Institute of Chartered Accountants of Sri Lanka

13 December 2017

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

It gives me great pleasure to forward this message on the launch of the updated “Code of Best Practice on Corporate Governance 2017”.

Corporate Governance is essentially thought of as the way in which enterprises are directed and controlled. Studies have shown that good Corporate Governance not only enhances the image and reputation of a company, but produces direct economic benefits by making it more profitable and competitive. This in turn creates more value for all stakeholders.

The advocacy of good Corporate Governance has come to the forefront of the business landscape owing to the numerous Corporate Governance transgressions that shook investor confidence in the past. To ensure responsible business conduct and governance structures majority of jurisdictions including Sri Lanka have introduced many Corporate Governance measures.

However, implementation of Corporate Governance is a challenge and all the regulation in the world cannot prevent corporate failures. Therefore, I believe that a sound regulatory framework has to be complemented by self-discipline and a commitment to the spirit of corporate governance principles.

The development of Codes on Corporate Governance best practices began in Sri Lanka in 1997 with the introduction of the ‘Code of Best Practice on matters related to financial aspects of Corporate Governance’, by the Institute of Chartered Accountants of Sri Lanka (ICASL). Subsequently, having kept close watch on international developments, ICASL together with the Securities and Exchange Commission of Sri Lanka (SEC) revised the Code on several occasions to bring it in line with international standards and best practices. The last such revision was in 2013.

Corporate Governance in Sri Lanka has come a long way and the current revision of the Code I believe is relevant and timely. I wish to commend ICASL for taking this important step to revise the Code to stay abreast of the global corporate governance standards but also foster ethical business behaviour and greater accountability and transparency.



Thilak Karunaratne  
Chairman  
Securities and Exchange Commission of Sri Lanka

13 December 2017

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**CODE OF BEST PRACTICE ON CORPORATE GOVERNANC**

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 the board’s responsibilities, while providing information to the board on a structured and regular basis; ideally monthly, or as agreed by the Board. The regularity of Board meetings and the structure and process of submitting information should be agreed to and documented by the Board.

Information to be reported on a regular (ideally monthly) basis to the board should include but not be limited to;

- financial and operational results on pre agreed Key Performance Indicators,
- financial performance compared to previous periods, budgets and targets,
- impact of risk factors on financial and operating results and actions to mitigate such risks,
- forecast for the next period,
- compliance with laws and regulations and any non-compliances,
- internal control breaches or frauds during the period and related actions taken,
- financial and operational decisions taken by the CEO within his delegated authority,
- share trading of the Company and related party transactions by Key Management Personnel and
- any other matters the board should be aware of.

### 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;
- appointing the chair and the senior independent director if relevant;
- 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;
- approving budgets and major capital expenditure.
- determining the matters expressly reserved to the board and those delegated to the management including limits of authority and financial delegation.
- 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 and consider the need for adopting "integrated reporting".
- ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations;
- establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks
- Ensuring that a process is established for corporate reporting on annual and quarterly basis or more regularly as relevant to the Company.
- 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, wherein a director can require the company to obtain independent professional advice at the Company's expense where it is considered necessary.
- 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 G.
- The Company should obtain appropriate insurance cover as recommended by the nominations committee for the board, directors and key management personnel.
- A.1.5 All Directors should bring independent judgment to bear, in discharging their duties and responsibilities on matters relating to the Board including strategy, performance, resource allocation, risk management, compliance 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 operations, risks and controls.
- A.1.7 One third of directors can call for a resolution to be presented to the Board where they feel it is in best interest to the company to do so.
- A. 1.8 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 duties as a Director. The Board should regularly review and agree on 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 agenda for board meetings is developed in consultation with the CEO, Directors and the Company Secretary taking in to consideration matters relating to strategy, performance, resource allocation, risk management and compliance.
- sufficiently detailed information of matters included in the agenda should be provided to Directors in a timely manner.
- all directors are made aware of their duties and responsibilities and the board and committee structures through which it will operate in discharging its responsibilities.
- 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.

- all directors are encouraged to seek information considered necessary to discuss matters on the agenda of meetings and to request inclusion of matters of corporate concern on the agenda.
- a balance of power between Executive and Non-Executive Directors is maintained.
- the views of Directors on issues under consideration are ascertained and a record of such deliberations reflected in the minutes.
- 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 three 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, or if the Chairman is not an independent director, 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 three Non-Executive Directors, all three Non-Executive Directors should be ‘independent’. In all other instances three or two third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be ‘independent’.

For companies who have a small cap such as the Diri Savi Board, the Board of Directors should include at least two Non-Executive Directors. Where the constitution of the Board of Directors includes only two Non-Executive Directors, both Non-Executive Directors should be ‘independent’. However the provisions in A.5.1 relating to Chairman being not independent will also apply for small cap companies.

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 K.

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 or has had in the preceding financial year, 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, significant 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, or the Chairman is not an independent Director or the Chairman is the immediately preceding CEO, 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.

The senior Independent Director should meet at least twice each year with the non-executive directors and at least once a year with the executive directors, to enable discussion and communication of governance related matters. The outcome of these discussions should be informed to the Chairman.

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.

The Senior Independent Director should participate in all meetings with majority, significant, and minority shareholders and be made aware of their concerns by the company secretary.

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 In order to facilitate effective conduct of meetings, the agenda and papers required for a Board Meeting should be provided to Directors at least seven (7) days before the meeting, and the minutes of the meeting should ordinarily be provided to Directors at least two weeks after the meeting date.

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 separate section of the Annual Report should describe the work of the Nomination Committee including the process it has used in relation to Board appointments.

A.7.2 The Nomination Committee should annually assess Board-composition against pre-defined criteria of skill and knowledge requirements 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, including a process to determine that such proposed Board appointees are fit and proper.

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.8.3 RESIGNATION

In the event of a resignation of a director prior to completion of his appointed term, the director should provide a written communication to the board of his reasons for resignation.

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 have in place a formal and rigorous process for annually reviewing the performance of the board and its committees and should address any matters that may arise from such review, in the discharge of its key responsibilities as set out in A.1.2.

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

The evaluation should be carried out by each director individually. The collective outcome should be compiled and made available to the Nomination Committee, which should make recommendation to the Board on initiatives and actions required to improve the balance of skills, experience, independence, industry and company knowledge, training of directors, governance processes, strategy review and other factors relevant to its effectiveness.

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

A.9.3 The Board should have a process to review the participation, contribution and engagement of each director at the time of re-election.

A.9.4 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 with a minimum of three Non-Executive Directors of whom the majority should be independent. The Chairman should be an Independent Non-Executive Director and 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 Executive directors' remuneration should be designed to promote the long-term success of the company.

- B.2.3 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.2.4 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.2.5 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. The performance-related elements should be transparent, stretching and rigorously applied.
- B.2.6 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. Shares granted under share option schemes should not be exercisable in less than three years and the remuneration committee should consider requiring directors to hold a minimum number of shares and to hold shares for a further period after vesting or exercise.
- B.2.7 In designing schemes of performance-related remuneration, Remuneration Committees should follow the provisions set out in Schedule E. The schemes should include provisions that would enable the Company to recover sums paid or withhold a portion of such performance related remuneration and specify the circumstances in which a Company may not be entitled to do so.
- B.2.8 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.2.9 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.2.10 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 arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.
- 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. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.
- C.1.3 The Company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted. For each resolution, where a vote has been taken on a show of hands, the Company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the Company:
- the number of shares in respect of which proxy appointments have been validly made;
  - the number of votes for the resolution;
  - the number of votes against the resolution; and
  - the number of shares in respect of which the vote was directed to be withheld.
  - When, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the Board should take steps to understand the reasons behind the vote results and determine if any actions are required.
- C.1.4 The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration, Nomination and Related Party Transactions Review Committees and the Senior Independent Director where such appointment has been made, to be available to answer questions at the AGM if so requested by the Chairman.
- C.1.5 Companies should circulate, along 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 the above policy and methodology is implemented.

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 should 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 in relation to shareholders' matters is the Company Secretary or in his/her absence the contact person should be a designated 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, the 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.

- C.3.2 Public listed companies should in addition comply with the disclosure requirements and shareholder approval by special resolution as required by the rules and regulation of the Securities Exchange Commission and by the Colombo Stock Exchange.

*D* ACCOUNTABILITY AND AUDIT

D.1 FINANCIAL AND BUSINESS REPORTING  
(THE ANNUAL REPORT)

Principle D.1 The Board should present a balanced and understandable assessment of the Company's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects.

D.1.1 The Board should present an annual report including financial statements that is true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation being clearly explained.

D.1.2 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.1.3 The Board should, before it approves the Company's financial statements for a financial period, obtain from its Chief Executive Officer and Chief Financial Officer a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the

financial position and performance of the Company and that the system of risk management and internal control was operating effectively.

D.1.4

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 Directors have complied with best practices of Corporate Governance;
- Property, plant and equipment is reflected at fair value, where it is different from fair value adequate disclosures are made;
- 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
- 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 H to this Code).

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

D.1.5

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 Schedule L for the contents of the Statement on Internal Control).

- D.1.6 The Annual Report should contain a “Management Discussion & Analysis”, discussing, among other issues:
- business model;
  - industry structure and developments;
  - opportunities and threats;
  - risk management;
  - internal control systems and their adequacy;
  - governance;
  - stakeholder relationships;
  - social and environmental protection activities carried out by the Company;
  - financial performance;
  - investment in physical and intellectual capital;
  - human resource / industrial relations activities carried out by the Company; and
  - prospects for the future.

The Management Discussion & Analysis may be structured based on the Integrated Reporting Framework issued by International Integrated Reporting Council and “A Preparer’s Guide to Integrated Corporate Reporting” issued by CA Sri Lanka.

- D.1.7 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. The Directors should report periodically to the shareholders progress on these remedial actions.

- D.1.8 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;

- 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 RISK MANAGEMENT AND INTERNAL CONTROL

Principle D.2 The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. 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, effected 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 board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.

D.2.2 The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.

D.2.3 Companies should have an internal audit function.

D.2.4 The Board should require the Audit Committee to ensure carrying out the 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 risk management and internal controls.

D.2.5 The Schedule L 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 for financial reporting, determine the structure and content of corporate reporting, implement internal control and risk management principles and for maintaining an appropriate relationship with the Company's Auditors.

D.3.1 The board should establish an audit committee exclusively of non-executive directors with a minimum of three non-executive directors of whom at least two should be independent. If there are more non-executive directors, the majority should be independent. The Committee should be chaired by an independent non-executive director. The board should satisfy itself that at least one member of the audit committee has recent and relevant experience in financial reporting and control.

D.3.2 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 the Sri Lanka's Accounting Standards;
    - 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:
  - performance of the Company's internal audit function;
  - process to the identification, monitoring and management of significant business/financial risk; and
  - Independence and performance of the company's external audit.
  
- The duties and responsibilities of the Audit Committee – should at a minimum include those set out below:
  - 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;
  - to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
  - to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Sri Lankan professional and regulatory requirements;
  - discussion of the audit plan, key audit issues, their resolution and management responses;
  - review the Company's annual audited financial statements and quarterly financial statements with management and the Auditor to ensure compliance with the Sri Lanka Accounting Standards and other relevant laws and regulations;

- to review significant financial reporting judgements;
- Review 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;
- to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;
- ensuring that a process of sound system of internal control is in place;
- ensuring that at least once in every three years an review of the board's risk management, internal controls, business continuity, planning and information security systems are carried out and appropriate remedial action recommended to the board;
- ensuring that an effective internal audit function is in place and monitor and review the internal audit activities;
- meeting separately, periodically, with management, auditors and internal auditors;
- ensuring that there is a mechanism 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;
- setting clear hiring policies for employees or former employees of the Auditors; and
- reporting regularly to the Board of Directors.

A specimen Audit Committee Charter is given in Schedule F.

D.3.3            DISCLOSURES

D.3.3            A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:

- The names of Directors (persons in the parent company’s committee in the case of a group company) comprising the Audit Committee;
- The number of meetings held and attendance of each director;
- The scope of work and how its roles and responsibilities were discharged;
- the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;
- an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length;
- if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded; and
- 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                RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Principle D.4    The Board should establish a procedure to ensure that the Company does not engage in transactions with “related parties” in a manner that would grant such parties “more favourable treatment” than that accorded to third parties in the normal course of business.

- D.4.1 A related party and related party transactions will be as defined in LKAS 24.
- D.4.2 The Board should establish a Related Party Transactions (RPT) Review Committee consisting exclusively of Non-Executive Directors with a minimum of three Non-Executive Directors of whom the majority should be independent. Executive Directors may attend by invitation. The Chairman should be an Independent Non-Executive Director appointed by the Board.
- D.4.3 RPT Review Committee should have written terms of reference dealing clearly with its authority and duties which should be approved by the Board of Directors. The RPT Review Committee's written terms of reference must address:
- A procedure for documenting related parties in accordance with the definitions in LKAS 24 and the CSE Listing Rules.
  - A procedure to obtain a statement of related party interest from each such related party at least once in each quarter, when there's a change in the status and in any event prior to entering into any transaction between such related parties and the Company, its parent or any of subsidiaries, sub-subsidiaries, fellow subsidiaries, associates, joint ventures and any other entities which are considered related parties as defined in LKAS 24 unless they are exempted related party transactions as defined in CSE Listing Rules.
  - Key Management Personnel of the company responsible for contracting, procurement, payments, and any other channel through which an inflow or outflow of resources can result, should have a list of all related parties and have a process in place to capture and report any related party transaction within their area of responsibility.
  - A procedure to inform all related parties of what constitutes exempted related party transactions.
  - A procedure to identify and for directors to report recurrent and non-recurrent related party transactions and to obtain Board or shareholder approval by special or ordinary resolution as required by the CSE Listing Rules.

- A procedure and guideline to delegate to Key Management Personnel to deal with recurrent related party transactions as defined in the CSE Listing Rules.
- A procedure for the RPT Review Committee to review and recommend to the board matters relating to such transactions.
- Any interested directors should not participate at the meeting at which the transaction relating to him/ her is discussed unless invited to seek clarification/ information.
- A procedure and definition of disclosures required to be made by the company on an annual basis, those requiring immediate disclosure and those requiring shareholder approval.
- A procedure to identify related party transactions which require immediate disclosure as per the CSE listing rules and to ensure that required disclosures are made by the Company to the Colombo Stock Exchange in accordance with the CSE Listing Rules.
- A procedure to identify related party transactions which require shareholder approval by special resolution at an extra-ordinary general meeting.
- The company secretary should maintain a permanent record in manual or electronic form of such statements, submissions, approvals and minutes.
- Review and recommend to the Board the related party disclosures to be made in the Annual Report of the Company.

## D.5 CODE OF BUSINESS CONDUCT & ETHICS

Principle D.5 Companies must adopt a Code of Business Conduct & Ethics for Directors, Key Management Personnel and all other employees' including but not limited to: dealing with shares of the company; compliance with listing rules; bribery and corruption; confidentiality; encouraging that any illegal, fraudulent and unethical behaviour be promptly reported to those charged with governance. The company must disclose waivers of the Code for Directors, if any.

D.5.1

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;
- fair and transparent procurement practices;
- corporate opportunities;
- confidentiality;
- fair dealing;
- protection and proper use of company assets including information assets;
- compliance with laws, rules and regulations (including insider trading laws); and
- encouraging the reporting of any illegal, fraudulent or unethical behaviour.

These aspects are expanded on, in Schedule J.

D.5.2

The Company should have a process in place to ensure that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations.

D.5.3

The Company should establish a policy, process for monitoring, and disclosure of shares purchased by any director, Key Management Personnel or any other employee involved in financial reporting.

D.5.4 The Chairman must affirm in the Company's Annual Report that a code of conduct and ethics has been introduced companywide and the procedure for disseminating, monitoring and compliance with that code. He must also disclose that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics.

D.6 CORPORATE GOVERNANCE DISCLOSURES

Principle D.6 Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.

D.6.1 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 INTERNET OF THINGS AND CYBERSECURITY

Principle G.1 The Board should have a process to identify how in the organization's business model, IT devices within and outside the organization can connect to the organization's network to send and receive information and the consequent cybersecurity risks that may affect the business.

Internal and external parties could have computing devices embedded in everyday objects which may enable them to interconnect with the company's network to send and receive data. Such access could be authorized or unauthorized.

Principle G.2 The Board should appoint a Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to introduce and implement a cybersecurity risk management policy which should be approved by the Board.

The policy should include a robust cybersecurity risk management process, incident response system, vendor management system, disaster recovery plan and a governance structure to monitor effective implementation, reporting and the need for cybersecurity insurance.

Principle G.3 The Board should allocate regular and adequate time on the board meeting agenda for discussions about cyber-risk management.

The matters taken up for the discussion on the board meeting agenda may include;

- Potential cybersecurity risks in the company's business model
- CISO's security strategy and status of the current projects
- Compliance with the cybersecurity risk management process and incident reports
- Findings and recommendations from independent reviewers

Principle G.4 The Board should ensure the effectiveness of the cybersecurity risk management through independent periodic review and assurance.

The scope and the frequency of the independent periodic reviews could be determined based on the industry vulnerability, company's business model and incident findings.

Principle G.5 The Board should disclose in the annual report, the process to identify and manage cyber security risks.

H. ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)

H.1 ESG REPORTING

Principle H.1 The Company's annual report should contain sufficient information to enable investors and other stakeholders to assess how ESG risks and opportunities are recognized, managed, measured and reported.

Environmental, social and governance considerations can affect a company's ability to execute its business strategy and create value. While many ESG factors are 'non-financial', their management and likely impact have financial consequences. Hence, they are important factors to be built into a company's business model, strategy, governance and risk management framework. ESG factors relevant to the company could impact the following:

- Access to financial capital
- Cost savings and productivity
- Brand value and reputation

- Employee recruitment
- Employee retention
- Access to markets
- License to operate
- Market capitalization

Integrating ESG policies and practices into a company's strategy, business model, governance and risk management, and reporting its likely impact and implications are increasingly seen by investors as material to their investment decisions. Further, investors want to understand how well companies are managing the risks associated with ESG issues, as this is seen as a key test of the long term sustainability of the company. They are also increasingly interested in the opportunities presented by the low carbon economy, and are allocating capital to companies that are well equipped to benefit from this.

H.1.1

Companies should provide information in relation to:

- The relevance of environmental, social and governance factors to their business models and strategy.
- How ESG issues may affect their business, e.g. through legislation, reputational damage, employee turnover, license to operate, legal action or stakeholder relationships, and how these impacts may affect business strategy and financial and operational performance.
- How risks and opportunities pertaining to ESG are recognized, managed, measured and reported.

H1.2:

### ENVIRONMENTAL FACTORS

H1.2.1

Environmental governance of an organization 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 (eg: water, energy),
- climate change,
- protection of environment,
- bio diversity,
- restoration of natural resources.

### H1.3 SOCIAL FACTORS

H1.3.1 Social governance of an organization should include its relationship with the community, customers, employees, suppliers, outsourced providers and any other party that can influence or be influenced by the organization's business model.

- The organization should adopt an integrated approach to building a relationship with the community and striving for sustainable development including responsible community engagement, fair competition, thereby demonstrating corporate social responsibility.
- The organization should adopt an integrated approach to building a relationship with customers. This includes establishing a process for customer engagement, product responsibility and product recall and other matters relevant to the organization's business model.
- The labour practice related governance of an organization should encompass all policies and practices in relation to work performed by or on behalf of the organization in accordance with its business model, and should also include policies and practices such as equal opportunity, career development and training, reward and recognition, conditions of work, work-life balance and industrial relations.
- The organization should have policies and procedures to ensure that suppliers and outsourced providers comply with social governance norms of the company.

### H1.4 GOVERNANCE;

H.1.4.1 Companies should establish a governance structure to support its ability to create value and manage risks in the short, medium and long term, recognizing managing and reporting on all pertinent aspects of ESG.

- The company should recognize the key resources/capitals deployed in its business and establish financial and non-financial measures for resource/capital management and related outputs and outcomes.

- The company should have a process to ascertain, assess and manage risks which have an impact on the sustainability of the company.
- The company should have a process to recognize material matters relating to significant stakeholders and a method of engagement relevant to their level of interest and influence.
- The disclosures should deal with how the company has complied with the mandatory and voluntary codes of corporate governance and how its leadership structure, organizational culture, code of conduct and business model supports sustainability of the company in the short, medium and long term.

#### H.1.5 BOARD'S ROLE ON ESG FACTORS

H.1.5.1 ESG reporting is a Board's responsibility and it is designed to add value by providing a credible account of the Company's economic, social and environmental impact.

ESG reporting and disclosure should be formalized as part of the Company's reporting process and take place on a regular basis.

ESG reporting should link sustainable issues more closely with strategy.

ESG reporting may be built on a number of different guidelines, such as:

- Integrated Reporting Framework
- The Global Reporting Initiative Guidelines

Guidance to establishing and reporting on ESG, maybe structured based on "A Preparer's Guide to Integrated Corporate Reporting" issued in 2015 and "A Supplement to a Preparer's Guide to Integrated Corporate Reporting" issued in 2017, by Institute of Chartered Accountants of Sri Lanka.

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

**Membership**

Majority of the Membership of the Committee shall be Non-Executive Directors and shall include at least one or one third (whichever is higher) of Independent Non-Executive Directors.

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

The Quorum of the Committee shall be three members who are Non-Executive Directors of which at least one should be independent.

**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 a director being fit and proper including but not limited to; qualifications, competencies, independence, relevant provisions of the Companies Act and any other regulations if any and relationships which have potential to give rise to conflict vis-a-vis the business of the Company;
- 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 the selection and appointment of a Chairman in case a vacancy arises;

- consider the succession plan for the Chief Executive Officer and ensure that there's a succession plan for all key management personnel;
- consider if each Director is able to and has been adequately carrying out his or her duties as a Director, taking into consideration the knowledge and experience required to meet the strategic demands facing the company, the number of directorships of listed company boards on which he/ she 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;
- propose the Company's which could result in a conflict of interest if a Director were to accept such directorship;
- regularly review the structure, size, composition including gender representation and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;
- recommended insurance cover to be taken in respect of all directors and other Key Management Personnel indemnity and insurance cover;
- 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 and decisions made on initiatives and actions required to improve the balance of skills and training needs of Directors?							
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?							
Does the Chairman encourage and seek an effective contribution from each director?							
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 for Key Management Personnel - "to ensure talent availability and address expectations of high potential and high quality staff"?							
Do the CEO and Key Management Personnel have skills, knowledge and experience to execute the strategy?							
Are there well-defined policies and procedures, delegation of authority, responsibility and accountability for Key Management Personnel?							
Is there an effective process in place for ensuring compliance with laws and regulations?							

Are relationships and communication with shareholders well managed?							
Does the Board consider all stakeholder interest in significant corporate decisions?							
Does the Board have a process to ensure financial reporting is carried out in order to provide a true and fair view of reported results?							
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 laws and regulations and the business environment?							
Has the Board ensured that adequate internal controls are implemented and monitored?							
Has the Board ensured that risk management function of the Company is conducted in an effective manner?							
Has the Board reviewed the business model and the performance of its financial and non-financial capitals?							
Has the Board ensured that the internal and external audit functions of the Company are conducted in an effective manner?							

Performance Evaluation of the Board's Committees	Yes	No	A	B	C	D	E
<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?</p> <p>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?</p> <p>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?							
How good has been their contribution to the risk management?							
How successfully have they brought their knowledge and experience to bear in the consideration of strategy implementation?							
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?							
<p>How actively and successfully do they refresh their knowledge and skills?</p> <p>Are they up-to-date with the latest developments in; areas such as Regulatory Requirements, Corporate Governance and Financial Reporting?</p> <ul style="list-style-type: none"> <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?</p> <p>Are they able to present their views convincingly yet diplomatically, and do they listen and take into consideration, views of others?</p>							

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

**Membership**

The Remuneration Committee should be comprised of a minimum of three Non-Executive Directors a majority of whom shall be independent.

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;
- Evaluating 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, majority of whom including the Chairman shall be 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 calibre.

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**

**Balance**

The remuneration committee should determine an appropriate balance between fixed and performance-related, immediate and deferred remuneration. Performance conditions, including non-financial metrics where appropriate, should be relevant, stretching and designed to promote the long-term success of the company. Remuneration incentives should be compatible with risk policies and systems. Upper limits should be set and disclosed.

Remuneration Committees should consider whether the Executive Directors should be eligible for annual bonuses and/or benefits under long-term incentive schemes. 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.

**Share-based remuneration**

Traditional share option schemes should be weighed against other kinds of long-term incentive schemes. Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules. 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 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.
- Performance related remuneration schemes should not be applied retrospectively.

### **Pensions**

In general, only basic salary should be pensionable. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.

- 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**  
**AUDIT COMMITTEE CHARTER**

**Purpose**

Provide assistance to the Board of Directors in fulfilling its oversight responsibility for the;

- preparation, presentation and adequacy of disclosures in the financial statements, in accordance with the Sri Lanka's Accounting Standards;
- 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;
- performance of the Company's internal audit function.
- process to the identification, monitoring and management of significant business/financial risk. and
- independence and performance of the company's external audit.

**Authority**

- Assess the independence of the independent auditor and recommend to the board, appointment/ removal/ re-appointment, remuneration, terms of engagement and approval of permissible non-audit services within financial limits established by the committee;
- to determine the scope, frequency, coverage and resource requirements for the internal audit;
- authority to require the Chief Financial Officer or equivalent designee to provide all information required by the audit committee to discharge the responsibilities.
- to invite other individuals such as the Chairman of the board, the Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and other representatives from the finance department to attend all or part of any meeting as and when considered appropriate by the committee;
- to invite the independent auditors to attend meetings of the committee on a regular basis

- to seek any information, it requires from any employee, officer or director of the company/ group or external party in order to perform its duties;
- to conduct investigations into any matters within its scope of responsibility;
- to obtain, at the company's expense, any outside legal or other professional advice it may require in connection with the performance of its duties;
- to require the senior management, company secretary, internal and external experts and any other parties whose functions have a bearing on the financial reporting process to provide it with information in accordance with the protocol established by the board.
- to form, and delegate authority to, subcommittees
- to have the right to publish in the company's annual report details relating to how it discharged its responsibilities during the reporting period

### **Composition**

The audit committee should comprise of at least three non-executive directors of whom at least two should be independent. The Committee should be chaired by an independent non-executive director. All members of the committee shall have general financial knowledge, at least one of whom preferably the chair, should have recent and relevant experience in financial reporting and control, including knowledge of the regulatory requirements, and should have past employment experience in finance or accounting or other comparable experience or background. Collectively, the committee should have an understanding of all matters that are integral to the company's annual report.

### **Secretary**

The Chief Internal Auditor or the company secretary, shall act as the secretary of the committee.

### **Meetings**

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors at least once a year and with relevant executives as and when required. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials.

## **Quorum**

The quorum necessary for the transaction of business shall be constituted by a majority of the members of the committee.

## **Annual General Meeting**

The chairman of the committee shall attend the Annual General Meetings of the company and be prepared to respond to any questions from shareholders on the committee's activities.

## **Responsibilities**

The Committee will carry out the following responsibilities.

### 1. Financial reporting

- Review significant accounting and reporting issues, including complex or unusual transactions, highly judgmental areas, recent professional and regulatory pronouncements and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete and consistent with information known to committee members, and reflect appropriate accounting standards and policies.
- Review other sections of the annual report and related regulatory filings before the release and consider the accuracy and completeness of the information.
- Review with management and the external auditors that all matters required to be communicated to the committee under the Sri Lanka Auditing Standards have been communicated
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and if required with the external auditor before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.
- Review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues, judgments made and key audit matters in connection with the preparation of the financial statements.

- discussion of the Company's earnings press releases and financial information and earnings guidance provided to analysts and rating agencies.

## 2. Internal audit

- Approve the internal audit charter.
- Ensure there are no unjustified restrictions or limitations in the scope of the internal audit,
- Review and concur in the appointment, replacement, or dismissal of the chief internal auditor.
- Approve the annual audit plan and all major changes to the plan.
- Review with the chief internal auditor, the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- Review the internal audit activity's performance relative to its plan.
- At least once per year, review the performance of the chief internal auditor and concur with the annual compensation and salary adjustment.
- Review the effectiveness of the internal audit function
- Consider the effectiveness of the company's internal control system, including information technology security and control.
- Ensure that the scope of the internal auditor's review of internal controls covers all significant operating procedures in the company's business model
- Obtain reports on significant findings and recommendations, together with management's responses of the review of the internal controls carried out by the internal auditor and provide recommendations for improvement.
- On a regular basis, meet with the chief internal auditor, separately, to discuss any matters that the committee or internal audit believes should be discussed privately.

## 3. Risk management

- Review and assess the company's risk management process, including the adequacy of the overall control environment and controls in areas of significant risks.
- Review and assess the company's system of internal controls for detecting accounting and financial reporting errors and misappropriation of assets, legal violations, and non-compliance with the corporate code of conduct. In this regard, review the related findings and recommendations of the external and internal auditors, together with management's responses.

- Review with legal counsel any regulatory matters that may have a material impact on the financial statements ensuring that at least once in every three years a review of the board's risk management, internal controls, business continuity planning and information security systems are carried out and appropriate remedial action recommended to the board.

#### 4. External audit

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment, reappointment, removal and to approve the remuneration and terms of engagement.
- Review and confirm the independence of the external auditors by obtaining a statement confirming independence of the auditor, including non-audit services performed.
- Understand the scope of external auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- On a regular basis, meet with the external auditors, separately, to discuss any matters that the committee or auditors believe should be discussed privately.
- Establish clear hiring policies for employees or former employees of the Auditors

#### 5. Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Review the findings of any examinations by regulatory authorities, and any auditor's observations.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and company legal counsel regarding compliance matters.
- Establishing a process to ensure compliance with Laws & Regulations relating to tax, customs, foreign exchange and other levies applicable to the company.

#### 6. Reporting responsibilities

- Regularly report to the board of directors about committee activities, issues, and related recommendations.

- Provide an open avenue of communication between internal audit, the external auditors, and the board of directors.
  - Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rules and regulations, including approval of non-audit services.
  - Review any other reports the company issues that relate to committee responsibilities.
7. Whistle blowing, fraud and Non-Compliance with Laws and Regulations.
- Review the company's arrangement 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;
  - Review the company's procedures for detecting and preventing fraud and bribery and receiving reports on non-compliance.
  - Establish a procedure for receiving and dealing with "Non-Compliance with Laws and Regulations (NOCLAR) referred by Professional Accountants.
8. Other responsibilities
- Perform other activities related to this charter as requested by the board of directors.
  - Oversee special investigations as needed.
  - Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
  - Confirm annually that all responsibilities outlined in this charter have been carried out.
  - Evaluate the committee's and individual members' performance on a regular basis.

### **Scope and Coverage**

Responsibilities stated above should cover the matters related to the public company, its subsidiaries and material associates.

**SCHEDULE G**  
**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.

### **Articles of Association**

- Ensuring that the Company complies with its 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 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 H**  
**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 judgements 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 I**  
**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 or the Chairman is not an independent director or the Chairman is the immediately preceding CEO, 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> </ul> </li> </ul>	A.5.5

Subject	Disclosure	Reference
	<ul style="list-style-type: none"> <li>• has or has had in the preceding financial year, a close family member who is a Director or chief executive officer or Key Management Personnel (and/or an equivalent position);</li> <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> </ul> </li> </ul>	

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
	<ul style="list-style-type: none"> <li>○ that has a Business Connection with the Company or Significant Shareholding in the Company;</li> <li>• has a Material Business Relationship or a Significant Shareholding 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; and/or</li> <li>○ which has a Business Connection with the Company or Significant Shareholding in the same.</li> </ul> </li> </ul> <p>(Please refer Section A.5.5 for relevant definitions)</p>	
Nomination Committee	A separate section of the Annual Report should be identified the Chairman and members of the Nomination Committee and should be described the work of the Nomination Committee including the process it has used in relation to Board appointments.	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

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Appraisal of Board Performance	Should disclose how performance evaluations have been conducted.	A.9.4
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> <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>	A.10.1

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
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
Major and Material Transactions	<p>All Material Transactions entered into by the Company should be disclosed.</p> <p>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> <p>Further, Public listed companies should in addition comply with the disclosure requirements as required by the rules and regulation of the Securities Exchange Commission and by the Colombo Stock Exchange.</p>	C.3 and C.3.1
Audit Committee	<p>A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:</p> <ul style="list-style-type: none"> <li>• The names of Directors (persons in the parent company's committee in the case of a group company) comprising the Audit Committee</li> <li>• The number of meetings held and attendance of each director</li> <li>• The scope of work and how its roles and responsibilities were discharged</li> </ul>	D.3.3

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
	<ul style="list-style-type: none"> <li>• the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed;</li> <li>• an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length</li> <li>• if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded.</li> <li>• 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.</li> </ul> <p>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.</p>	
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, Key Management Personnel and all other employees' including but not limited to: dealing with shares of the company; compliance with listing rules; bribery and corruption; confidentiality; encouraging that any illegal, fraudulent and unethical behaviour be promptly reported to those charge with governance.</li> </ul>	D.5.1 and D.5.4

Subject	Disclosure	Reference
	<p>The Chairman must affirm in the Company's Annual Report that a code of conduct and ethics has been introduced companywide and the procedure for disseminating, monitoring and compliance with that code.</p> <ul style="list-style-type: none"> <li>• He must also disclose that he is not aware of any violation of any of the provisions of the Code of Business Conduct &amp; Ethics.</li> </ul>	
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 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>	C.2.2, C.2.3, C.2.4, C.2.5, C.2.6, C.2.7

## B. Remuneration Committee Report

Subject	Disclosure	Reference
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 Directors have complied with best practices of Corporate Governance;</li> <li>• Property plant and equipment is reflected at fair value, where it is different from fair value adequate disclosures are made;</li> <li>• They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith; and</li> <li>• 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 H to this Code.)</li> </ul>	D.1.4

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.1.5
Related Party Transactions	Should disclose the related parties and related party transactions as specified by SEC/Accounting Standards/ Auditing Standards and similar regulations.	D.1.8

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>• business model</li> <li>• industry structure and developments;</li> <li>• opportunities and threats;</li> <li>• risks management;</li> <li>• internal control systems and their adequacy;</li> <li>• governance</li> <li>• stakeholder relationships</li> <li>• social and environmental protection activities carried out by the Company;</li> <li>• financial performance;</li> <li>• investment in physical and intellectual capital;</li> </ul>	D.1.6

	<ul style="list-style-type: none"> <li>• human resource / industrial relations activities carried out by the Company; and</li> <li>• prospects for the future.</li> </ul> <p>The Management Discussion &amp; Analysis may be structured based on the Integrated Reporting Framework issued by International Integrated Reporting Council and “A Preparer’s Guide to Integrated Corporate Reporting” issued by CA Sri Lanka.</p>	
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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.6.1

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.3.2

H. Related Party Transactions Review Committee Report

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Related Party Transactions Review Committee Report	Should set out the work carried out by the Committee.	D.4.3

I. Statement on Internal Control

II.

<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 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>	D.1.5 and D.2.4

	<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:  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.</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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J. Internet of Things and Cybersecurity

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Report on Internet of Things and Cybersecurity	The Board should disclose in the annual report, the process to identify and manage cyber security risks.	G.5

K. Sustainability Reporting

<b>Subject</b>	<b>Disclosure</b>	<b>Reference</b>
Environment, Society and Governance (ESG) Reporting	<p>Companies should provide information such as:</p> <ul style="list-style-type: none"> <li>• the relevance of environmental, social and governance factors to their business models and strategy and how risks and opportunities pertaining to ESG are recognized, managed, measured and reported,</li> <li>• how ESG issues may affect their business, e.g. through legislation, reputational damage, employee turnover, license to operate, legal action or stakeholder relationships, and how these impacts may affect business strategy and financial and operational performance,</li> <li>• how the company has complied with the mandatory and voluntary codes of corporate governance and how its leadership structure, organizational culture, code of conduct and business model, support sustainability of the company in the short, medium and long term.</li> </ul>	H.1.1 to H.1.4

## **SCHEDULE J**

### **CODE OF BUSINESS CONDUCT & ETHICS**

The Code of Business Conduct & Ethics of a company referred to in paragraph D.5 should cover the following aspects:

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

#### **Conflicts of interest**

A “conflict of interest” occurs when an 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, a Key Management Personnel or any other employee 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 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, Key Management Personnel or any other employee 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 organisation 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.

### **Fair and transparent procurement practices**

Every employee to whom authority has been delegated for procurement of goods or services and committing the company to sale or acquisition of any commitment which resulting an inflow or outflow of resources must ensure that company's policies and procedures are strictly followed and documented, in a fair and transparent manner.

### **Corporate opportunities**

Directors and Key Management Personnel should be prohibited from:

- taking for themselves personally, opportunities that are discovered through the use of corporate property, information or position;
- using corporate property, information, or position for personal gain; and
- 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, Key Management Personnel and all employees should maintain the confidentiality of information entrusted to them by the Company or its customers, suppliers and other stakeholders, 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, Key Management Personnel and all employees 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 including information assets**

All Directors, Key Management Personnel and all employees 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 K**  
**DECLARATION OF INDEPENDENCE**

- A. I am a Non-Executive Director of .....(Company) being so appointed on .....
- B. I have been/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 L**  
**THE RESPONSIBILITIES OF DIRECTORS IN MAINTAINING A**  
**SOUND SYSTEM OF INTERNAL CONTROL**

Maintaining a 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 nature and extent of risks facing the Company;
- (b) The adequacy of the entire risk management framework of 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 takes the responsibility for implementation of effective internal controls and related disclosures in the annual report, and requires the audit committee to ensure the carrying out reviews of the internal controls and to report to the Board.

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

Where an internal audit function does not exist within the Company, 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.

**1997**

**President, Institute of Chartered Accountants of Sri Lanka**

**Mr M R Mihular**

**Committee Members as at 1<sup>st</sup> December 1997**

**Chairman**

Mr. Nivard A L Cabraal

Past President, ICASL

Past President, South Asian Federation of Accountants

**Members**

Mr Mahendra Amarasuriya

Deputy Chairman, Hayleys Ltd

Chairman, Commercial Bank of Ceylon Ltd

Mr Romesh De Silva

President's Counsel,

President, Bar Association of Sri Lanka

Mr E Easparathan

Senior Deputy Governor, Central Bank of Sri Lanka

Chairman, Sri Lanka Accounting and Auditing Standards Monitoring Board

Mr Channa Gunasinghe

Former Chairman, Ceylon Chamber of Commerce

Mr D K Hettiarachchi Acting Registrar of Companies, Dept. of Registrar of Companies

Mr Hiran Mendis

Director General, Colombo Stock Exchange

Mr Angelo Patrick

Past President CIMA, Sri Lanka Division

Divisional Representative, CIMA Council in London

Mr Kumar Paul, Jnr

Director General, Securities and Exchange Commission of Sri Lanka

Mr G C B Wijeyesinghe

Past President, ICASL

Senior Partner, KPMG Ford Rhodes Thornton & Co.

**2000**

**President, Institute of Chartered Accountants of Sri Lanka**

Mr Ranel T Wijesinha

**The Committee appointed in March 2000**

**Chairman**

Mr Chandra Jayaratne  
Managing Director  
CTC Eagle Insurance Co. Ltd

**Members**

Mr M J C Amarasuriya  
Chairman  
Commercial Bank of Ceylon Ltd

Mr Ken Balendra  
Chairman, Bank of Ceylon  
The Ceylon Chamber of Commerce

Mr Anuk Gunasena  
Assistant Secretary General  
The Ceylon Chamber of Commerce

Mr D K Hettiarachchi  
Registrar of Companies, Dept. of  
Registrar Companies

Dr D C Jayasuriya  
Director General, Securities &  
Exchange Commission of Sri Lanka

Mrs S Kadurugamuwa  
(till 17<sup>th</sup> April 2001)  
Director/Legal, Central Bank of Sri  
Lanka

Mr J S Mather  
Senior Partner, Ernst & Young

Mr Hiran Mendis  
Director General, Colombo Stock  
Exchange

Mr M R Mihular  
Partner, KPMG Ford Rhodes  
Thornton & Co  
Past President, The Institute of  
Chartered Accountants of Sri  
Lanka

Mr Lal Nanayakkara  
Immediate Past President  
Partner, Lal Nanayakkara & Co

Mr Angelo Patrick  
Finance Director, Ole Spring  
Bottlers Pvt Ltd  
Past President, CIMA - Sri Lanka  
Division

Mr P T Sirisena (from 17<sup>th</sup> April  
2001)  
Director Bank Supervision  
Department  
Central Bank of Sri Lanka  
The Department of Bank  
Supervision

Mr Arittha Wicramanayake  
Precedent Partner  
Nithya Partners  
Attorneys-at-Law

Mr G C B Wijeyesinghe  
Past President, ICASL  
Senior Partner, KPMG Ford Rhodes  
Thornton & Co

**National Committee on Corporate Governance Constituted in November 2001**

**Chairman**

Mr M J C Amarasuriya  
Chairman, Pelawatte Sugar Industries Ltd

**Members**

Mr J D Bandaranayake  
Managing Director, Ceylon Tobacco Company Ltd

Mr B L B Barsenbach  
President, Institute of Chartered Secretaries and Administrators - Sri Lanka Branch

Mr Nivard Cabraal  
Past President, The Institute of Chartered Accountants of Sri Lanka

Mr Ranjith Fernando  
Secretary, Ministry of Enterprise Development Industrial Policy & Investment Promotions

Prof. M T A Furkhan  
Past President, Institute of Chartered Secretaries and Administrators  
Past President, CIMA – Sri Lanka Division

Ms Surangika Gunasekera  
Company Secretary, Seylan Bank

Mr Ajith Gunawardena  
Director, John Keells Holdings Ltd

Ms C A Gunawardene  
Fellow of the Institute of Chartered Secretaries and Administrators

Mr D K Hettiarachchi  
Registrar of Companies

Dr Ranee Jayamaha  
Assistant to the Governor, Central Bank of Sri Lanka

Mr Chandra Jayaratne  
Managing Director, Eagle Insurance Company Ltd

Dr Dayanath C Jayasuriya  
Director General, Securities and Exchange Commission

Mr K Kanag-Iswaran  
President's Counsel

Mr S O Z Mowlana  
Consultant, Institute of Local Governance

Mr Eardley Perera  
Managing Director, M & E Pvt Ltd

Mr Sudarshan Senaratne  
Managing Director, Lanka Orix Factors Ltd  
President, CIMA – Sri Lanka Division

Mr Asite Talwatte  
Partner, Ernst & Young  
President, ICASL  
(from 19<sup>th</sup> December 2001)

Mr Rienzei Wijetilleke  
Managing Director, Hatton National Bank

Mr G C B Wijeyesinghe  
Secretaries and Registrars Ltd  
Former President, ICASL

## **2008**

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

Mr. Nishan Fernando

### **Corporate Governance Committee in 2008**

#### **Co-Chairmen**

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

Mr. N A L Cabraal  
Governor - Central Bank of Sri Lanka

#### **Members**

Mr. D T S H Mudalige-Partner -  
PricewaterhouseCoopers

Mr. P E A Jayewickreme-Managing  
Partner-SJMS Associates

Mr. Arittha Wickramanayake  
Precedent Partner (Attorney-at Law)  
- Nithya Partners

Mr. Nirmal Fernando- Senior  
Partner - KPMG Ford Rhodes,  
Thornton & Co.

Mr. B R L Fernando  
Chairman/CEO-Chemical  
Industries (Col) PLC

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

Mr. Ronnie Peiris-Group Finance  
Director-John Keells Holdings PLC

Mr. R A Ebell-Director  
Hayleys PLC

Mr. Nihal Fonseka-Chairman -  
Colombo Stock Exchange

Ms. Marina Tharmaratnam  
CEO/Director- Union Assurance

Mrs. Shirani Jayasekera-Former  
Head of Risk & Control - Sri  
Lanka, Bangladesh, British  
American Tobacco Co. Ltd.

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

Mr. Chandra Jayaratne-Former  
Managing Director - Eagle  
Insurance PLC

Mr. Ranjeevan Seevaratnam-  
Former Partner - KPMG Ford  
Rhodes,  
Thornton & Co.

Late Mr. G R RamanayakeFormer  
Training Director - ICASL

Ms. Sajevani Bakmeedeniya-Senior  
Executive (Attorney-at-Law) - SEC

Mr. S Sockalingam – Former  
Consultant – ICASL

**2013**

**President, Institute of Chartered Accountants of Sri Lanka**

Mr. D T S H Mudalige

**Corporate Governance Committee in 2013**

**Co- Chairmen**

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

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

**Members**

Mr. S Rajapakse, Vice President -  
CA Sri Lanka

Mr. A Herath, Partner – E & Y

Mr. A S Ratnayake, Director  
General - SLAASMB

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 – SEC

Ms. Surekha Sellaheewa, Chief  
Executive Officer – CSE

Ms. Damayanthi Fernando,  
Director Legal - IBSL

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

Ms. Priyanthi Peiris, Consultant –  
Colombo Stock Exchange

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

Mr. Deva Rodrigo, Retired Territory  
Senior Partner -  
PricewaterhouseCoopers

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

Mr. Trevine Jayasekara, Director -  
Brandix Lanka Ltd.