

# REVIVAL



**Keells Food Products PLC**

Corporate Governance 2021/22

# CORPORATE GOVERNANCE COMMENTARY

## 1 EXECUTIVE SUMMARY

The John Keells Group's robust and comprehensive Corporate Governance framework, endeavours to create an enabling environment for growth in a structured and sustainable manner, to navigate through stable as well as volatile socio-economic environments. The Group's Corporate Governance philosophy is institutionalised across all its business units, and it is this philosophy that has continuously created value for all its stakeholders, notwithstanding the external environment and macro conditions.

Keells Food Products PLC (KFP or Company) and its Subsidiary John Keells Food India (Private) Limited (collectively KFP Group) as members of the John Keells Group have their own set of internal policies, processes and structures, aimed at meeting and in many instances, exceeding accepted best practice, in addition to the 'triggers' which ensure compliance with mandatory regulatory requirements. This framework is regularly reviewed and updated to reflect evolving regulations, global best practice and dynamic stakeholder needs, whilst maintaining its foundational principles of accountability, participation, integrity and transparency.

The ensuing discussion comprises of the following key aspects:

- Significant components of the John Keells Holdings PLC (JKH) Corporate Governance System.
- Monitoring mechanism in place to ensure strict compliance to the KFP Group's Governance policy.
- Outlook and emerging challenges for Corporate Governance.
- KFP Group's compliance with all mandatory requirements of law and its voluntary adoption of recommended codes in the governance field.

### 1.1 Compliance Summary

#### 1.1.1 Regulatory Benchmarks

Standard/ Principle / Code	Adherence
The Companies Act No. 07 of 2007 and regulations	Mandatory provisions - fully compliant
Listing Rules of the Colombo Stock Exchange (CSE)	Mandatory provisions - fully compliant
Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021, including applicable directives and circulars	Mandatory provisions - fully compliant
Code of Best Practices on Related Party Transactions (2013) advocated by the Securities and Exchange Commission of Sri Lanka (SEC)	Mandatory provisions - fully compliant
Code of Best Practices on Corporate Governance (2013) jointly advocated by the SEC and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)	Voluntary provisions - fully compliant
Code of Best Practices on Corporate Governance (2017) issued by the CA Sri Lanka	Voluntary provisions - compliant with almost the full 2017 code to the extent of business exigency and as required to the KFP Group

#### 1.1.2 Key Internal Policies

- Articles of Association of the Company
- Recruitment and selection policies
- Learning and development policies
- Policies on equal opportunities, non-discrimination, career management and promotions
- Rewards and recognition policy
- Leave, flexi-hours, tele-working and agile working policies including health and safety enhancements and protocols
- Code of conduct which also includes policies on gifts, entertainment, facilitation payments, proprietary and confidential information
- Policy on diversity, equity and inclusion including gender
- Policy against sexual harassment
- Policies on forced, compulsory and child labour and child protection
- Disciplinary procedure

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

## 1.2 Key Corporate Governance Highlights of the KFP Group for the year 2021/22

- The Group launched the Diversity, Equity and Inclusion (DE&I) Policy - the overarching policy that underlies the Group's overall commitment to DE&I, in May 2021.

The Group recognises that organisations that constitute diverse and inclusive workforces are best placed to innovate, retain talent and deliver better overall results, and firmly believes that it can achieve its highest potential through bringing together diverse perspectives and backgrounds. The Group is committed to advancing a culture of equitable inclusion amongst its workforce and value chain and ensuring that the dignity and diversity of all employees and value chain partners are recognised and respected.

The DE&I policy is based on the key principles of:

- Empowerment and inclusion
- ZERO tolerance for discrimination
- Equal opportunity
- Equal participation
- Diverse value chains

- The following key initiatives and targets were rolled out, in furtherance of the Group's emphasis on creating an inclusive, diverse and equitable work environment;
  - Various initiatives such as the introduction of subsidised crèche facilities, implementation of the first phase of the "SanNap" programme whereby free sanitary napkins were provided free-of-charge to all female employees of the Group.
  - As noted in the 2020/21 Annual Report, the Group has a goal of increasing women participation up to 40 per cent by the end of 2025/26.
- The Group continued with its multi-pronged approach to internal audits and process reviews by augmenting its integrated fraud deterrent and investigation framework to foster synergy and collaboration efficiencies between components that deliver governance and assurance and related services, in facilitating business strategies. Central to this approach is the business strategy and how the current processes, systems, and people, are geared to efficiently and effectively handle the deliverables. This approach focuses on identifying opportunities for continuous improvement through a rigorous review, to determine the degree of alignment and interplay between processes, technologies, and people, in optimally facilitating each business strategy to handle consequent transactional events for better outcomes.
- The Group continued to strengthen its IT governance framework through the adoption of a Zero Trust Policy Framework effective from 1st April 2022, including shifting to a hybrid-cloud infrastructure as well as a Software Defined Wide Area Network (SD-WAN) to ensure real-time data accessibility, and implementation of a revamped Smart Office platform across the Group.
- Given the significant macroeconomic challenges and developments prevalent in the country - the Board of Directors and the Group Executive Committee (GEC) frequently deliberated and evaluated the resilience of the Group under multiple stress tested scenarios.
- Cognisant of the economic hardships faced by the Group employees on account of rising prices and the scarcity of essential items, JKH provided a one-off, uniform financial care package in the form of an ex-gratia payment, to all eligible Group employees, in April 2022.

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- Further, a set of initiatives and programmes in the form of non-financial and indirect financial support are to be rolled out. These include awareness sessions and webinars on managing personal finances in the current economic climate, emotional support with counsellors and employee supplier catalogues to name a few.
- Mr. S I Thanthirigoda resigned from the post of Chief Executive Officer (CEO) on 1st April 2022 and Mr. V I Wickramaratne was appointed as the CEO w.e.f. 1st of April 2022.
- The KFP Board declared a final dividend of Rs. 2.50 per share in May 2021 for the financial year 2020/21. For the year under review, the Board declared an interim dividend of Rs. 7.00 per share in February 2022.
- A final dividend of Rs. 0.50 per share has been declared by the Board in May 2022, to be paid in June 2022.

## 1.3 Highlights of the 39th Annual General Meeting Held on 23rd June 2021

- Ms. P N Fernando was re-elected as a Director who retired in terms of Article 90 of the Articles of Association of the Company.
- Mr. J G A Cooray was re-elected as a Director, who retired in terms of Article 83 of the Articles of Association of the Company.
- Mr. D P Gamlath was re-elected as a Director, who retired in terms of Article 83 of the Articles of Association of the Company.
- Messrs. Ernst & Young (E&Y) were re-appointed as the External Auditors of the Group and the Directors were given authorisation to determine the remuneration of E&Y.

## 1.4 Outlook and Emerging Challenges

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

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

### 1.4.1 Board Diversity

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

In furtherance of this initiatives, and to amplify the Group's emphasis on creating an inclusive, diverse and equitable work environment, headway was made on the gender diversity front with 2 females being appointed to the Boards.

### 1.4.2 Board Independence

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

The criteria for defining independence of Boards vary significantly across countries. The KFP Group is of the view that the intended vision of achieving improved governance and higher independence can be achieved through various checks and balances, whilst not compromising on the underlying operating model of a corporate. These checks and balances may entail, among

others, establishment of various assurance mechanisms and the use of systematic and comprehensive board evaluation processes and independent director lead engagement. To this end, the KFP Group will continue to place emphasis on further augmenting the Board's independence whilst striking a balance with the Group's operating model, which addresses the complexities and intricacies of a diversified conglomerate business setting.

#### **1.4.3 Anti-Fraud, Anti-Corruption and Anti-Bribery**

The KFP Group places the highest value on ethical practices and has promulgated a zero-tolerance policy towards corruption and bribery in all its transactions and strives to maintain a culture of honesty as opposition to fraud and corruption. Based on this commitment, the Code of Conduct, anti-fraud, fraud prevention, anti-corruption, anti-bribery, validation, audit and transparency policies, amongst many others, outline the principles to which the Group is committed in relation to preventing, reporting and managing fraud and corruption. It covers, inter alia, theft, embezzlement, overriding controls, giving or receiving kickbacks, bribery, allowing oneself to be placed in situations of conflict of interest and statements (financial or non-financial) dishonestly and recklessly made contrary to the factual position.

The KFP Group seeks to ensure that ethical business practices are the norm from the business unit level, down to the individual employee. Its transparent control and prevention mechanisms also extend to its value chain, to its customers, suppliers and business partners.

The KFP Group will continue its stance of zero-tolerance towards corruption and bribery in all its transactions and foster transparency and honesty in all business dealings, whilst continually developing its governance frameworks in line with international best practice.

#### **1.4.4 Increasing Emphasis on Environmental, Social and Governance (ESG) Aspects**

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

impacts globally have accelerated and intensified such discussions on the interlinkages between sustainability considerations and financial performance.

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

#### **1.4.5 Continual Strengthening of Internal Controls**

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

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

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

#### **1.4.6 Digital Oversight and Cyber Security**

Whilst the rapidly advancing nature of technology and the continual integration of the Group's operations with technological progress has enhanced and streamlined processes and controls across the Group and opened up opportunities, it has resulted in increased vulnerability

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for the Group from a digital standpoint. As a result, the Board places significant emphasis on ensuring that the Group's soft and hard infrastructure is designed in a manner, and adequate, to deal with a potential breach. Data protection and cyber security are regularly addressed during the Risk Management and Audit Committee meetings and periodically discussed at a Board level.

## 1.4.7 Data Protection, Information Management and Adoption

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

Given the emergence of regulations such as European Union General Data Protection Regulation (GDPR) and the Sri Lankan Personal Data Protection Act, No. 09 of 2022, data security, integrity and information management will be pivotal. In addition to this, the KFP Group's initiatives on advanced data analytics also necessitate an established governance framework to manage the flow of data. To this end, the KFP Group will continue to strengthen its data governance structure to ensure ownership and accountability of clearly articulated data governance policies and processes and Group wide data quality standards.

## 1.4.8 Greater Employee Involvement in Governance

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

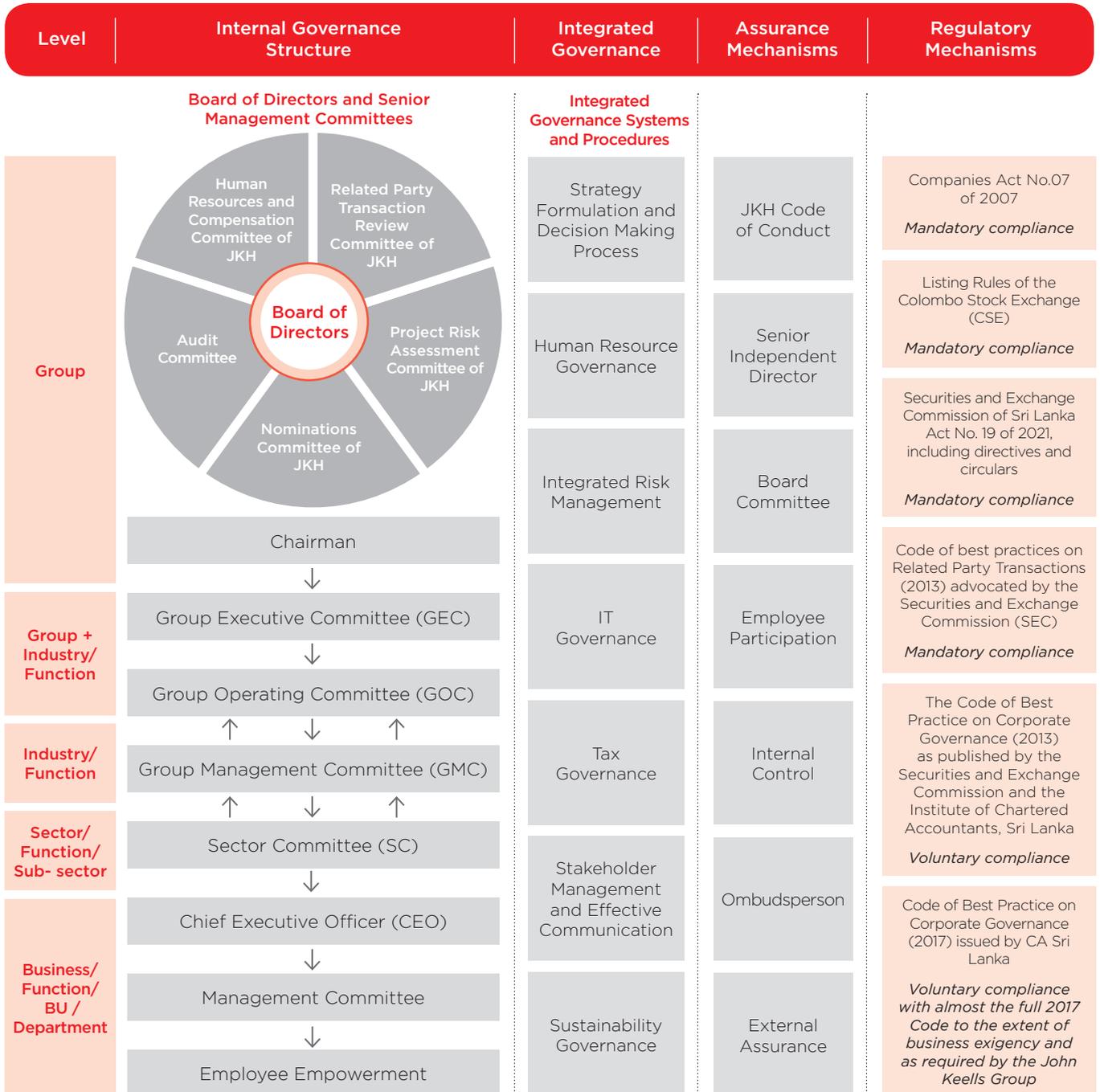
- a further strengthened continuous performance management process, which envisages continuous feedback and enhanced engagement via the newly implemented employee information systems.

- engagement and empowerment via greater delegation of authority.
- increased communication and collaboration.
- adoption of differentiated means of communication based on the age dynamics of employee segments.

## 1.5 Key Governance Disclosures

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## 2 THE CORPORATE GOVERNANCE SYSTEM

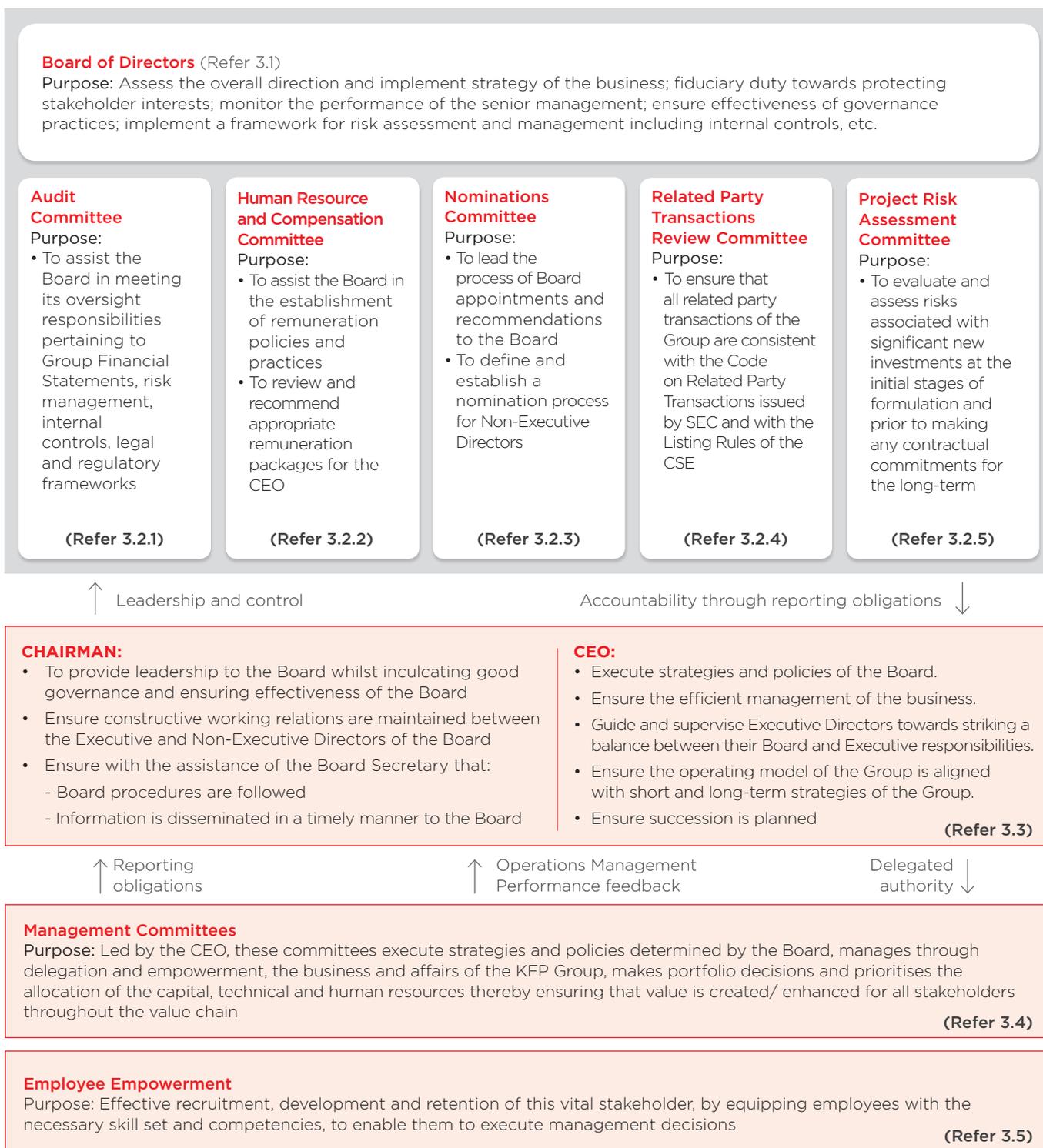


- Except the Audit Committee, the other four (4) Boards Sub-Committees of JKH act on behalf of KFP and are chaired by Independent Directors appointed by the JKH Board. The Audit Committee is appointed by the KFP Board.
- The Chairman is present at all Human Resources and Compensation Committee meetings unless the Chairman's performance assessment or remuneration is under discussion. The Deputy Chairman/ Group Finance Director is invited as necessary.
- Audit Committee meetings are attended by the President overseeing the Consumer Foods industry group of JKH, Chief Financial Officer, Chief Executive Officer and the Head of Group Business Process Review. Internal and External Auditors are regular attendees.
- The GOC acts as the binding agent to the various businesses within the KFP Group towards identifying and extracting KFP Group synergies.
- Due to space constraints only the key components are depicted in the diagram.

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## 3 INTERNAL GOVERNANCE STRUCTURE

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



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

### 3.1 The Board of Directors

#### 3.1.1 Board Responsibilities

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

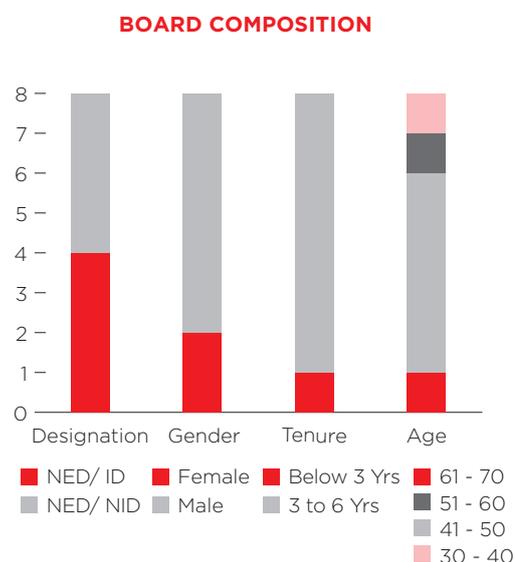
The Board's key responsibilities include:

- Providing direction and guidance to the KFP Group in the formulation of sustainable, high-level, short, medium, and long- term strategies which are aimed at promoting the long-term success of the KFP Group.
- Reviewing and approving annual plans and long-term business plans.
- Tracking actual progress against plans.
- Ensuring business is conducted with due consideration on Environmental, Social and Governance (ESG) factors.
- Reviewing Human Resource (HR) processes with emphasis on top management succession planning, including the diversity, equity and inclusion (DE&I) strategy.
- Ensuring operations are carried within the scope of the Enterprise Risk Management framework.
- Monitoring systems of governance and compliance, including concerns on ethics, bribery and corruption.
- Overseeing systems of internal control, risk management and establishing whistle-blowing conduits.
- Determining any changes to the discretions/ authorities delegated from the KFP Board to the executive levels.
- Reviewing and approving major acquisitions, disposals and capital expenditure.
- Approving any amendments to constitutional documents.
- Approving the issue of equity/ debt/ hybrid securities.
- Ensuring all related party transactions are compliant with statutory obligations.

#### 3.1.2 Board Composition

As at 31st March 2022, the Board comprised of eight (8) Directors, with four (4) of them being Non-Executive Independent (NED/ID), four (4) of them being Non-Executive Non-Independent (NED/NID). The Group policy is to maintain a healthy balance between Non-Executive Directors (NED) and Independent Directors (ID), in keeping with the applicable rules and codes, with the NED/NIDs bringing in deep knowledge of the businesses and the NED/IDs bringing in experience, objectivity and independent oversight.

The current composition of KFP Board is illustrated as follows:



#### 3.1.3 Board Skills

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

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

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

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## 3.1.4 Access to Independent Professional Advice

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

## 3.1.5 Board Appointment

Board appointments follow a structured and formal process within the purview of the Nominations Committee of JKH, the Parent Company of KFP which acts on behalf of KFP. The Terms of Reference for the members of the Nominations Committee and the Committee report can be found in section 3.2.3 of this Report.

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

## 3.1.6 Board Induction and Training

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

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

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

## 3.1.7 Re-Election

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

## 3.1.8 Board Meetings

### 3.1.8.1 Timely Supply of Information

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

### 3.1.8.2 Board Agenda

The Chairman ensured that all Board proceedings were conducted smoothly and efficiently, approving the agenda for each meeting prepared by the Board Secretary. The typical Board agenda in 2021/22 entailed ratification of Circular Resolutions, discussion of matters arising from the previous minutes, submission of Board Sub-Committee reports, status updates of major projects, review of performance, strategy formulation, approval of quarterly and annual financial statements, review of risk, sustainability and corporate social responsibility related aspects, ratification of capital expenditure, among others. Added emphasis was also placed on business performance with special focus on cash flow planning, debt management and foreign exchange exposures in lieu of the challenges stemming from the ongoing macroeconomic volatilities and uncertainties.

### 3.1.8.3 Regularity of Meetings

During the financial year under review, there were four (4) pre- scheduled Board meetings. In addition, where issues of strategic importance requiring extensive discussions are considered, the Board of Directors communicated regularly as and when required.

The attendance at the Board meetings held during the financial year 2021/22 is given below:

Name of the Directors	Board Meeting Attendance						
	Year of Appointment	20/04/2021	15/07/2021	26/10/2021	12/01/2022	Eligibility	Attended
<b>Independent Non-Executive</b>							
Mr. P D Samarasinghe	2016	✓	✓	✓	✓	4	4
Ms. S De Silva	2016	✓	✓	✓	✓	4	4
Mr. A E H Sanderatne	2016	✓	✓	✓	✓	4	4
Mr. I Samarajiva	2016	✓	✓	✓	✓	4	4
<b>Non-Independent Non-Executive</b>							
Mr. K N J Balendra	2018	✓	✓	✓	✓	4	4
Mr. J G A Cooray	2018	✓	✓	✓	X	4	3
Mr. D P Gamlath	2017	✓	✓	✓	✓	4	4
Ms. P N Fernando	2021	✓	✓	✓	✓	4	4

#### 3.1.8.4 Board Secretary

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

#### 3.1.9 Time Dedicated by Non-Executive Directors

The Board has dedicated adequate time for the fulfillment of their duties as Directors of the KFP Group. In addition to attending Board meetings the Directors contributed to decision making via Circular Resolutions and one-on-one meetings with key management personnel, when necessary.

#### 3.1.10 Board Evaluation

The Board conducted its annual Board performance appraisal for the financial year 2021/22. This formalised process of individual appraisal enabled each member to self-appraise, on an anonymous basis, the performance of the Board under the areas of:

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

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

#### 3.1.11 Managing Conflicts of Interests and Ensuring Independence

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

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

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

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

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

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

No Non-Executive Independent Director has a conflict of interest as per the criteria for independence outlined above.

### 3.1.11.1 Details in Respect of Directors

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

Name of Directors	No. of Board seats held in other Listed Sri Lankan Companies	
	Executive Capacity	Non-Executive Capacity
Mr. K N J Balendra	Nil	Nil
Mr. J G A Cooray	Nil	Nil
Mr. D P Gamlath	Nil	Nil
Mr. P D Samarasinghe	Overseas Realities Ceylon PLC	Swadeshi Industrial Works PLC
Ms. S De Silva	Nil	Sarvodaya Development Finance PLC, Ex-pack Corrugated Cartons PLC, Amana Takaful Life PLC
Mr. A E H Sanderatne	Nil	Nil
Mr. I Samarajiva	Nil	Nil
Ms. P N Fernando	Nil	Nil

### 3.1.12 Director Remuneration

#### 3.1.12.1 Non-Executive Director Remuneration

The compensation of Non-Executive Directors was determined in reference to fees paid to other Non-Executive Directors of comparable companies, and adjusted, where necessary, in keeping with the complexity of the KFP Group. The fees received by NEDs are determined by the Board and reviewed annually. NEDs fees are not subject to time spent or defined by a maximum/ minimum number of hours committed to the KFP Group per annum, and hence are not subject to additional/ lower fees for additional/ lesser time devoted. Directors fees applicable to NEDs nominated by JKH are paid directly to JKH and not to individuals.

Total aggregate of Non-Executive Director remuneration for the year was Rs. 7.2 million [2020/21: Rs. 6.5 million].

#### 3.1.12.2 Compensation for Early Termination

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

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

### 3.2 Board Sub-Committees

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

The five Board Sub-Committees are as follows:

- i. Audit Committee
- ii. Human Resources and Compensation Committee of the Parent Company - JKH
- iii. Nominations Committee of the Parent Company - JKH
- iv. Related Party Transactions Review Committee of the Parent Company - JKH
- v. Project Risk Assessment Committee of the Parent Company - JKH

# CORPORATE GOVERNANCE COMMENTARY

## 3.2.1 Audit Committee

No. of meetings - 4

<b>COMPOSITION</b>	All members to be Non-Executive Independent Directors, with at least one member having significant, recent and relevant financial management and accounting experience and a professional accounting qualification.
	The Industry Group President, Industry Group Chief Financial Officer and Head of Group Business Process Review of JKH are permanent invitees for all Committee meetings.
<b>SCOPE</b>	Review the quarterly and annual Financial Statements, including quality, transparency, integrity, accuracy and compliance with accounting standards, laws and regulations.
	Assess the adequacy and effectiveness of the internal control environment in the KFP Group and ensure appropriate action is taken on the recommendation of the internal auditors.
	Evaluate the competence and effectiveness of the risk management systems of the KFP Group and ensure robustness and effectiveness in monitoring and controlling risks.
	Review the adequacy and effectiveness of internal audit arrangements.
	Recommend the appointment, re-appointment and removal of the External Auditors including their remuneration and terms of engagement by assessing qualifications, expertise, resources and independence.

The KFP Group's Audit Committee comprise of four (4) Non-Executive Independent Directors with one of them having current membership of a reputed accountancy body. The KFP Group's Audit Committee had four (4) meetings during the year and attendance of the Audit Committee members is indicated in the Audit Committee Report on pages 97 to 99 of the Annual Report 2021/22.

The Audit Committee as at 31st March 2022 consisted of the following members;

### Members

- Mr. P D Samarasinghe -Chairman
- Mr. I Samarajiva
- Ms. S De Silva
- Mr. A E H Sanderatne

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

<b>COMPOSITION</b>	Committee to comprise exclusively of NED, a majority of whom shall be independent.
	The Chairman of the Committee must be a NED.
	The Chairman and Deputy Chairman/ Group Finance Director of JKH are present at all Committee meetings unless the Chairman or Executive Director remuneration is under discussion respectively.
	The Deputy Chairman/Group Finance Director, is the Secretary of the Committee.
<b>SCOPE</b>	Review and recommend overall remuneration philosophy, strategy, policies and practice and performance- based pay plans for the KFP Group.
	Determine and agree with the Board a framework for the remuneration of the Chairman and Executive Directors based on performance targets, benchmark principles, performance related pay schemes, industry trends and past remuneration.
	Succession planning of Key Management Personnel.
	Determining compensation of NEDs are not under the scope of this Committee.

### 3.2.2.1 The Human Resources and Compensation Committee meeting attendance;

No. of meetings - 02

Members	Eligible to Attend	Attended
• Mr. D A Cabraal - Chairman	2	2
• Mr. M A Omar	2	2
• Dr. S S H Wijayasuriya	2	2
<b>By Invitation</b>		
• Mr. K N J Balendra	2	2
• Mr. J G A Cooray	2	2

#### REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resource and Compensation Committee forms a key part of the governance framework of the Group and carries the mandate to oversee the compensation and benefits policies adopted by the Group, and in doing so, review and recommend overall remuneration philosophy, strategy, policies and practice and, performance-based pay plans. Furthermore, it reviews performance, compensation and benefits of the Chief Executive Office ("CEO"), the other Executive Directors, and key executives who support and implement decisions at an apex level, the overall business strategy and make recommendation thereon to the Board of Directors. The Committee also reviews and monitors the performance of the Group's top talent for purposes of organizational growth and succession planning, with particular emphasis on succession at key executive level.

In performing this role, the Committee is conscious of the need to ensure that stakeholder interests are aligned, the Group is able to attract, motivate and retain talent and ensure their loyalty; the integrity of the Group's compensation and benefits programme is maintained and importantly, that the compensation policy and schemes are compliant with applicable laws and regulations.

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

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

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



**D A Cabraal**

Chairman of the Human Resources and Compensation Committee

20th May 2022

# CORPORATE GOVERNANCE COMMENTARY

## 3.2.3 Nominations Committee of the Parent Company – JKH

<b>COMPOSITION</b>	Majority of the members of the Committee shall be NEDs together with the Chairman.
	The Chairman of the Committee must be a NED/ID.
	The Secretary to the Board is the Secretary of the Committee.
<b>SCOPE</b>	Assess skills required on the Board given the needs of the businesses.
	From time to time assess the extent to which the required skills are represented at the Board.
	Prepare a clear description of the role and capabilities required for a particular appointment.
	Identify and recommend suitable candidates for appointments to the Board.
	Ensure, on appointment to Board, NEDs receive a formal letter of appointment specifying clearly expectation in terms of time commitment, involvement outside of the formal Board meetings, participation in Committees, amongst others.
	Ensure that every appointee undergoes an induction to the Group.
The appointment of the Chairperson and Executive Directors is a collective decision of the Board.	

### 3.2.3.1 Nominations Committee meeting attendance;

No. of meetings - 03

Members	Eligible to Attend	Attended
• Mr. M A Omar - Chairman	3	3
• Dr. S S H Wijayasuriya	3	3
• Mr. K N J Balendra	3	3
• Ms. M P Perera	3	3

### REPORT OF THE NOMINATIONS COMMITTEE

In its annual self-review, the Nominations Committee reaffirmed its mandate as follows:

- Recommend to the Board the process of selecting the Chairman and Deputy Chairman.
- Assess the skills required for each business, based on the strategic demands to be met by JKH and other Listed Companies of the Group.
- Identify suitable persons to be appointed as Non-Executive Directors to the Board of JKH and make recommendations to other Listed Companies in the Group.
- Review the structure, size, composition and skills of each Board.
- Ensure that that every appointee undergoes an induction.
- Make recommendations on matters referred to it by the Board.

During the reporting period, the following appointments and contract renewals were made consequent to the recommendation made by the Committee:

#### Asian Hotels and Properties PLC:

- Ms. A Nanayakkara (new appointment)
- Mr J Durairatnam (renewal)
- Mr A S de Zoysa (renewal)

**Ceylon Cold Stores PLC:**

- Mr. M Hamza (renewal)

**Tea Smallholder Factories PLC:**

- Mr. S K L Obeysekere (renewal)
- Mr. A S Jayatilleke (renewal)

**Trans Asia Hotels PLC:**

- Mr. H A J de Silva Wijeratne (new appointment)

**Union Assurance PLC:**

- Mr. D H Fernando (renewal)
- Mr. S A Appleyard (renewal)

The Committee reports its activities at each Board Meeting.

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



**M A Omar**

Chairman of the Nominations Committee

20th May 2022

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

<b>COMPOSITION</b>	The Chairman must be a NED.
	May include one Executive Director.
<b>SCOPE</b>	The JKH has broadened the scope of the Committee to include senior decision makers in the list of key management personnel, whose transactions with John Keells Group companies also get reviewed by the Committee, in addition to the requisitions of the CSE.
	Develop and recommend for adoption by the Board of Directors of JKH and its listed subsidiaries, a Related Party Transaction Policy which is consistent with the operating model and the delegated decision rights of the John Keells Group.
	Update the Board on related party transactions of each of the listed companies of the John Keells Group on a quarterly basis.
	Define and establish the threshold values for each of the subject listed companies in setting a benchmark for related party transactions, related party transactions which have to be pre-approved by the JKH Board, related party transactions which require to be reviewed annually and similar issues relating to listed companies.

# CORPORATE GOVERNANCE COMMENTARY

## 3.2.4.1 Related Party Transactions Review Committee meeting attendance;

No. of meetings - 04

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

### REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE 2021/22

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

Ms. M P Perera  
Mr. A N Fonseka  
Mr. D A Cabraal

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

The objective of the Committee is to exercise oversight on behalf of the Board of John Keells Holdings PLC and its listed Subsidiaries, to ensure compliance with the Code on Related Party Transactions, as issued by the Securities and Exchange Commission of Sri Lanka ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the Institute of Chartered Accountants of Sri Lanka.

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

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

The Committee reviewed and pre-approved all proposed non-recurrent Related Party Transactions (RPTs) of the parent, John Keells Holdings PLC, and all its listed subsidiaries, namely: John Keells PLC, Tea Smallholder Factories PLC, Asian Hotels and Properties PLC, Trans Asia Hotels PLC, John Keells Hotels PLC, Ceylon Cold Stores PLC, Keells Food Products PLC, and Union Assurance PLC.

Recurrent RPTs as well as the disclosures & assurances provided by the senior management of the listed companies in the Group in relation to such transactions, in terms of formulated guidelines so as to validate compliance with sec 9.5(a) of the listing rules and thus exclusion from the mandate for review & pre-approval by the Committee, were reviewed annually by the Committee.

Other significant transactions of non-listed subsidiaries were presented to the Committee for information.

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

The Committee held four meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below.

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



**M P Perera**

Chairperson of the Related Party Transaction Review Committee

20th May 2022

### 3.2.5 Project Risk Assessment Committee of the Parent Company – JKH

<b>COMPOSITION</b>	Should comprise of a minimum of four (4) Directors.
	Must include the Chairman and Group Finance Director.
	Must include two NEDs.
	The Chairman must be a NED.
<b>SCOPE</b>	Review and assess risk associated with large-scale investments and the mitigatory plans thereto, if mitigation is possible and identify risk that cannot be mitigated.
	Ensure stakeholder interest are aligned, as applicable, in making investment decision.
	Where appropriate, obtain specialised expertise from external sources to evaluate risks, in consultation with the Group Finance Director.
	Recommend to the Board, necessary action required, to mitigation risks that are identified in the course of evaluating a project in order to ensure that those risks are captured by the Group Risk Matrix for monitoring and mitigation.

Note that the Committee shall convene only when there is a need, as per the terms of its mandate.

#### 3.2.5.1 Project Risk Assessment Committee meeting attendance;

No. of meetings - 01

Members	Eligible to Attend	Attended
• Dr. S S H Wijayasuriya - Chairperson	1	1
• Ms. M P Perera	1	1
• Mr. K N J Balendra	1	1
• Mr. J G A Cooray	1	1

The Project Risk Assessment Committee was established to further augment the John Keells Group's Investment Evaluation Framework. The committee provides the Board of John Keells Holdings PLC (JKH) with enhanced illumination of risk perspectives with respect to large-scale new investments, and assess the potential impact of risks associated with such investments. Investments which are referred to the committee are those which exceed a Board-agreed threshold in terms of quantum of investment and/or potential impact to the John Keells Group. Accordingly, the committee provides early-stage recommendations to the Board with regard to the extent of risk and adequacy of mitigation strategies.

Whilst the sub-committee convened once during the year under review to discuss other investments of the John Keells Group, No meetings were convened in relation to investments made by Keells Food Products PLC.

Given the impact of the pandemic on Group businesses and the challenging macroeconomic uncertainties and volatilities during the latter part of the year, the JKH Board held frequent discussions affording the opportunity for matters pertaining to Group investments and risk assessments to be deliberated by all Board members.

# CORPORATE GOVERNANCE COMMENTARY

## 3.3 Role of Chairman of the Board

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

### 3.3.1 Chairman Appraisal

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

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

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

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

## 3.4 Group Executive Committee and Other Management Committees

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

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

### 3.4.1 Group Executive Committee (GEC)

As at 20th May 2022, the 7-member GEC consisted of the Chairman of the John Keells Group, the Deputy Chairman/Group Finance Director and the Presidents of each business/function. The GEC is the overlay structure that implements, under the leadership and direction of the Chairman, the strategies and policies determined by the JKH Board, manages through delegation and empowerment, the business and affairs of the Group, makes portfolio decisions and prioritises the allocation of all forms of capital.

A key responsibility of the members of the GEC is to act as the enablers of the operating model of the Group. The members of the GEC are well equipped to execute these tasks and bring in a wealth of experience and diversity to the Group in terms of their expertise and exposure.

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

### 3.4.2 Group Operating Committee (GOC)

As at 20th May 2022, the 19-member GOC consisted of the Chairman of the John Keells Group, the Deputy Chairman/ Group Finance Director, the Presidents and the Executive Vice Presidents in charge of sector and the finance function of the industry groups. The GOC provided a forum to share learnings, and identify synergies, across industry groups, sectors, business units and functions. The GOC meets once a month during the year and is instrumental in preserving a common group identity across diverse business units.

### 3.4.3 Group Management Committee (GMC)

The GMC of the Consumer Foods Industry Group is operated under the leadership of the respective President and is dedicated and focused towards implementing strategies and policies determined by the Board and designing, implementing and monitoring the best practices in their respective functions, strategic business units or even at departmental level where appropriate and material.

### 3.4.3.1 Key Objectives of the GMC

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

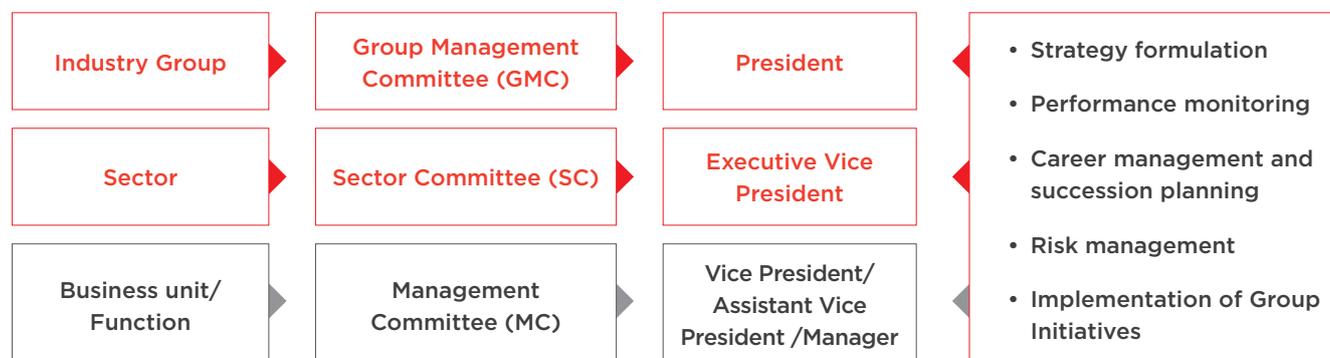
### 3.4.3.2 Scope of the GMC

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

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

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

Illustrated below is the structure of the three Committees.



### 3.5 Employee Empowerment

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

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

Launch of the DE&I policy, to amplify the KFP Group's emphasis on creating an inclusive, diverse, and equitable work environment aimed at increasing female participation in the workforce by implementing identified initiatives such as gender goals, employer supported

# CORPORATE GOVERNANCE COMMENTARY

childcare solutions, change agent networks and training and development. Some key initiatives in this regard included extension of maternity and paternity leave, introduction of adoption leave and institution of a Gender Policy.

The Group prioritises a safe, secure, and conducive environment for all its employees, allows freedom of association and collective bargaining, prohibits child labour, forced or compulsory labour and any discrimination based on gender, race, religion, gender identity or sexual orientation, and promotes workplaces which are free from physical, verbal or sexual harassment. Focus on health and safety was emphasised throughout the year under review, in view of the pandemic, with the Group undertaking voluntary PCR testing, provision of personal protection equipment for employees and implementing many processes to limit contact. The Group strives to incorporate many policies, where relevant, in the supply chain contracts entered into by the Group.

## 4 INTEGRATED GOVERNANCE SYSTEMS AND PROCEDURES

Listed below are the main governance systems and procedures of the Group. These systems and procedures strengthen the elements of the JKH Internal Governance Structure and are benchmarked against industry best practice.

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

### 4.1 Strategy Formulation and Decision-Making Processes

#### 4.1.1 Strategy Mapping

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

This exercise entails the following key aspects, among others.

- Progress and deviation report of the strategies formed.
- Competitor analysis and competitive positioning.
- Analysis of key risks and opportunities.
- Management of stakeholders such as suppliers and customers.

- Value enhancement through initiatives centered on the various forms of Capital under an integrated reporting framework.

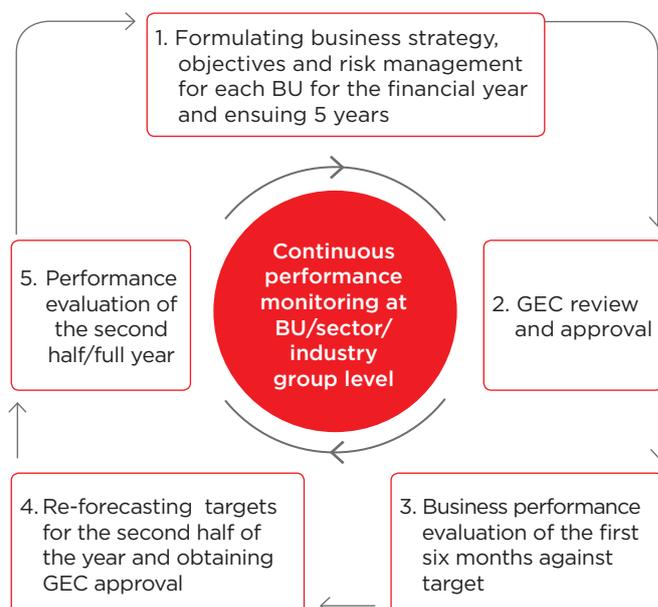
The strategies of the various business units, operating in diverse industries and markets, will always revolve around the KFP Group strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

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

In this manner:

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

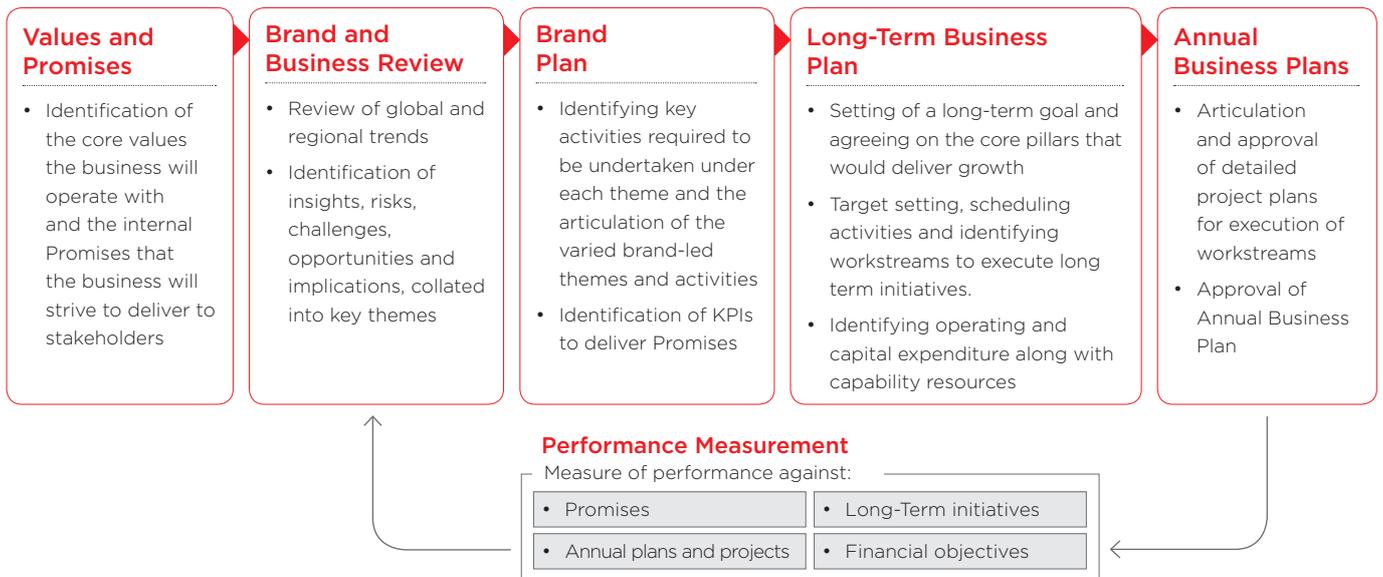
The following section further elaborates on the Group's project appraisal and execution process.



### 4.1.2 Medium-term Strategy

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

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



### 4.1.3 Project Approval Process

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

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

Social and environmental impacts will also be considered. Where the transaction involves the transfer or lease of land, title searches would be conducted for both private and State land. In case of State land, every action would be taken to ensure compliance with the relevant rules

and regulations. As appropriate, written authority and approvals will be obtained. Where the project is a part of a privatization mechanism, the entire process will be conducted in line with the directives of the relevant administrative authority as communicated through expressions of interests, request for proposals, pre-bid meetings and official approvals and correspondence.

Subsequent to the project satisfying the above highlighted criteria, the final approval to proceed will be granted by the Board. Based on thresholds of the investment quantum, the Project Risk Assessment Committee will review and assess risks associated with such investments and the mitigatory plans thereto, if mitigation is possible, and identify risks that cannot be mitigated on behalf of the Board. The aim of this intervention is to ensure alignment with the interest of various stakeholders and to recommend to the Board, necessary action required, to mitigate risks that are identified in the course of evaluating a project in order to ensure that those risks are captured by the Group Risk Matrix for monitoring and mitigation. When appropriate, the GEC is empowered to approve such proposals in terms of the delegated decision rights with the Board being kept informed.

# CORPORATE GOVERNANCE COMMENTARY

The aforementioned Project Appraisal framework flow is illustrated below:



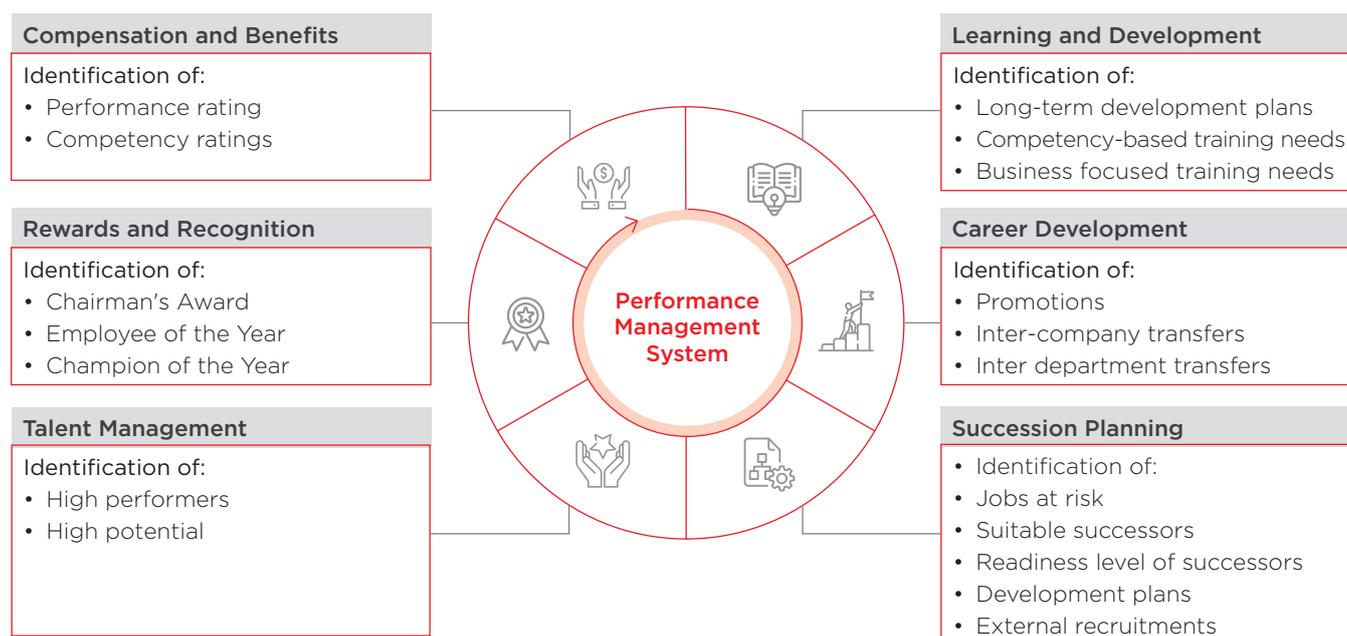
## 4.2 Human Resource Governance

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

The state-of-the-art cloud based Human Resource Information System (HRIS) manages the entire lifecycle of the employee from onboarding to performance management, succession planning, compensation, learning and development, through to offboarding.

### 4.2.1 Performance Management

The Performance Management System, as illustrated below, is at the heart of many supporting human resource management processes such as learning and development, career development, succession planning, talent management, rewards/recognition and compensation/benefits. Whilst the employees are appraised for their performance, equal emphasis is placed on how well they embody Group Values, namely: Caring, Trust, Integrity, Excellence and Innovation.



#### 4.2.2 Performance Based Compensation Philosophy

The JKH Group Compensation Policy is as follows:

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

##### 4.2.2.1 Equity Sharing

Employee Share Option Plans (ESOP) are offered at defined career levels based on pre-determined criteria which are uniformly applied across the eligible levels and performance levels. These long-term incentives have been significantly instrumental in inculcating a deep sense of ownership in the recipients and is seen to be a key driver of performance driven rewards. Share options are awarded to individuals on the basis of their immediate performance and potential importance of their contribution to the Group’s future plans.

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

#### 4.3 Integrated Risk Management

KFP’s Group-wide risk management programme focuses on wider sustainability development, to identify,

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

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

- Integrating and aligning activities and processes related to planning, policies/procedures, culture, competency, internal audit, financial management, monitoring and reporting with risk management

# CORPORATE GOVERNANCE COMMENTARY

- Supporting executives/ managers in moving the organisation forward in a cohesive integrated and aligned manner to improve performance, while operating effectively, efficiently, ethically and legally within the established limits for risk taking. The risk management programmes have allowed greater visibility and understanding of risk appetites. Enabled by the automated risk management platform, key management personnel have virtual visibility of the risks, as relevant, while the Board has visibility of all Group risks.

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

Please refer the Enterprise Risk Management in the Annual Report 2021/22 for a detailed discussion on the KFP Group's Integrated Risk Management process and the key risks identified in achieving the KFP Group's strategic business objectives.

## 4.4 Information Technology (IT) Governance

IT governance stewardship roles are governed through layered and nested committees, cascading from the Board, GEC, GOC, the Group IT Steering Committee and to the Group IT Operations Committee with well-defined roles and responsibilities across the Group with a federated governance structure to cater to the holistic Group-level as well as specific industry level nuances and to ensure empowerment and enablement to act with a singular and more robust governance and policy framework across the Group, whilst being agile and nimble.

The IT governance framework used within the Group leverages on best practice and industry leading models such as CoBIT (Control Objectives for Information and Related Technology), ISO 35800, ISO 27001, ISO 9001:2015, COSO (Committee of Sponsoring Organisations of the Treadway Commission)/BCP (Business Continuity Planning), ITIL (Information Technology Infrastructure Library), NIST (National

Institute of Standards and Technology), among others, in formulating a stated-of-the-art framework for IT governance, risk and compliance management across the Group.

The Group had carried out significant initiatives in the year under review to furtherance of the Group's IT/Digital strategies, initiatives and programmes:

- Adoption of a Zero Trust Policy Framework effective 1 April 2022. A Zero trust is a security framework which ensures that all users, both internal and external users, are authenticated, authorised, and continuously validated for security configuration and posture before system or data access is granted, or data is accessed.
- Shift to Hybrid Cloud infrastructure fully to enable anytime and anywhere access to all our constituents and stakeholders in line with our mandate.
- Shift to Software Defined Wide Area Network (SD-WAN) to leverage on the commoditised network infrastructure over the public internet, having enabled the Hybrid Cloud infrastructure to host our IT/Digital assets.
- Implementation of a revamped Smart Office platform, enabling all employees to remotely work and access employee centric services, using a device and basic internet services.
- Enforcement of enhanced initiatives, tools and programmes across user, device, data, network and workload governance in line with the Zero Trust policy framework.

## 4.5 Tax Governance

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

<p><b>Governance Structure</b></p>	<ul style="list-style-type: none"> <li>• Voluntary compliance and efficient tax management are key aspect of the Group's overall tax strategy.</li> <li>• This is enabled through a decentralised tax structure where expertise is built at each industry group level.</li> <li>• The Head of Tax of each industry group, reporting functionally to the Group Head of Tax, ensures compliance and implements Group tax strategy across all businesses.</li> </ul>
<p><b>Policy and Strategy</b></p>	<ul style="list-style-type: none"> <li>• Ensure: <ul style="list-style-type: none"> <li>- Integrity of all reported tax disclosures.</li> <li>- Robust controls and processes to manage tax risk.</li> <li>- Openness, honesty and transparency in all dealings.</li> <li>- Presence of legitimate business transactions underpinning any tax planning or structuring decision/opportunity.</li> </ul> </li> <li>• Contribute to fiscal policy decisions constructively in the interest of all stakeholders.</li> </ul>
<p><b>Role</b></p>	<ul style="list-style-type: none"> <li>• Implement and maintain strong compliance processes.</li> <li>• Analyse and disseminate business impact from change in tax legislation.</li> <li>• Provide clear, timely, and relevant business focused advice across all aspects of tax.</li> <li>• Ensure availability of strong and well documented technical support for all tax positions.</li> <li>• Obtain independent/external opinions where the law is unclear or subject to interpretation.</li> </ul>
<p><b>Review and Monitoring</b></p>	<ul style="list-style-type: none"> <li>• Leverage on digital platforms to support, record and report on tax compliance status across the Group.</li> <li>• Periodic updates to the Board of Directors on various tax matters (quarterly at minimum).</li> </ul>

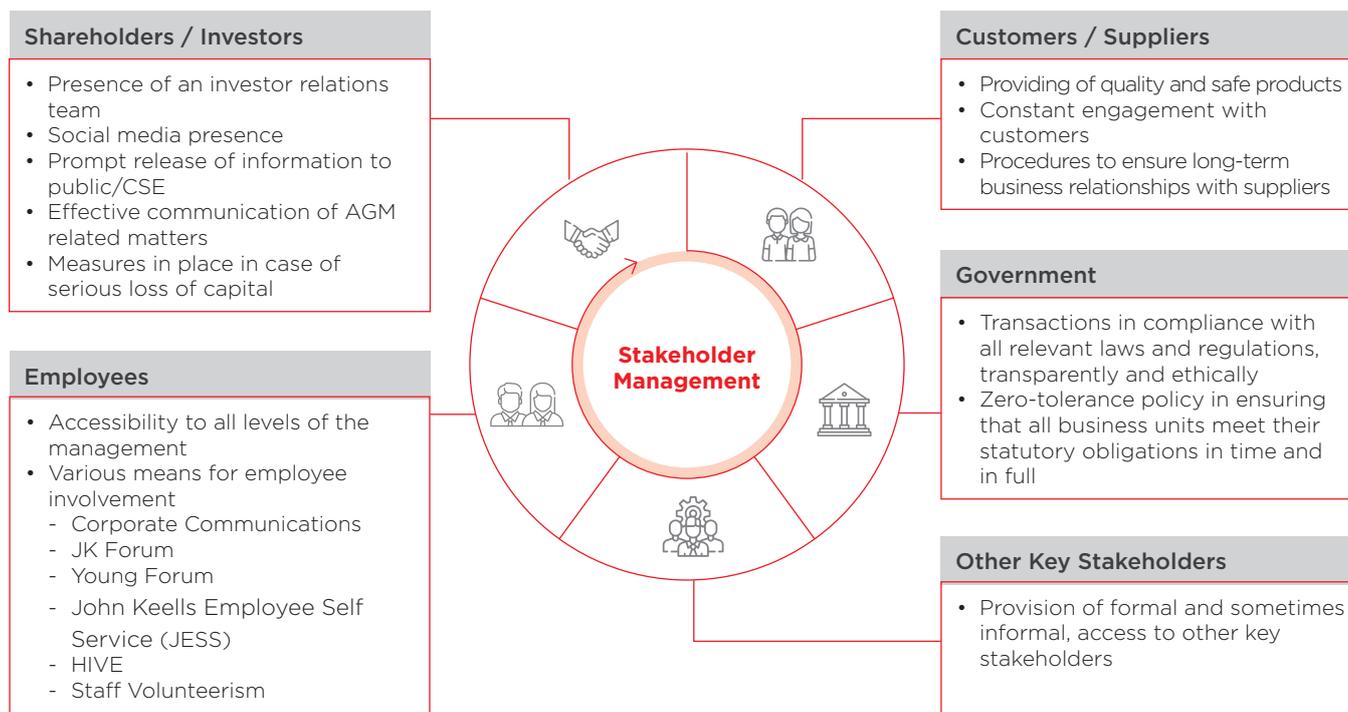
The KFP Group's approach to tax governance is directly linked to the sustainability of business operations. The presence of a well-structured tax governance framework ensures the following:

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

# CORPORATE GOVERNANCE COMMENTARY

## 4.6 Stakeholder Management and Effective Communication

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



### 4.6.1 Communication with Shareholders

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

#### 4.6.1.1 Investor Relations

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

The Investor Relations team has regular discussions with shareholders, as and when applicable, to share highlights of the Group's performance as well as to obtain constructive feedback. Investor Presentations, which include an update on the latest financial results, are made available on the corporate website, to provide easier access and in-depth detail of the operational performance of the Group.

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

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

The Board of Directors, in conjunction with the Audit Committee where applicable, is responsible in ensuring the accuracy and timeliness of published information and in presenting a true and fair view, and balanced assessment of results in the quarterly and annual financial statements. Accordingly, KFP has reported a true and fair view of its financial position and performance for the year ended 31st March 2022 and at the end of each quarter of the financial year 2021/22.

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

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

#### 4.6.1.3 Annual General Meeting

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

The KFP makes use of the AGM constructively towards enhancing relationships with the shareholders and towards this end the following procedures are followed:

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

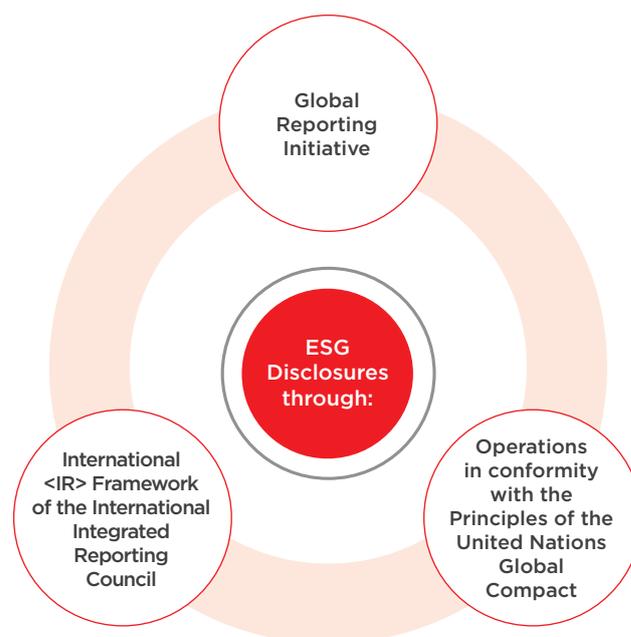
#### 4.6.1.4 Serious Loss of Capital

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

### 4.7 Sustainability Governance

The KFP Group places great importance on sustainable development. The Group believes that its financial performance and brand image are closely aligned with sound management of Environmental, Social and Governance (ESG) factors. The Group's approach to sustainability continues to be aligned to support the Sustainable Development Goals adopted by the United Nations in 2015, which expands on the Millennium Development Goals.

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



# CORPORATE GOVERNANCE COMMENTARY

## 5 ASSURANCE MECHANISMS

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

### 5.1 The Code of Conduct

JKH Group Code of Conducts to which the KFP group adhere to;

- Allegiance to the Company and the Group, that ensures the Group will “do the right thing”, by going further than the letter of any contract, the law and our written policies.
- Compliance with rules and regulations applying in the territories that the Group operates in.
- Conduct all businesses in an ethical manner at all times in keeping with acceptable businesses practices and demonstrate respect for the communities we operate in and the natural environment.
- Exercise of professionalism and integrity in all business and “public” personal transactions.

The Code of Conduct also entails conformance to all Group policies, and also includes, amongst many others, policies on gifts, entertainment, facilitation payments, proprietary and confidential information. Policies on anti-fraud, anti-corruption and anti- money laundering and countering the financing of terrorism and JKH's Code of Conduct, amongst other policies, also encompass:

- anti-bribery controls to prevent payments and contributions being made with the aim of obtaining an improper business benefit from any party including, but not limited to, clients, service providers, customers, business associates and political parties; and
- controls on gifting, commissions and favours. Accepting gifts or favours in whatsoever form, including from clients, service providers, customers, business associates and political parties and any other stakeholder we engage with in the course of carrying out duties in our professional capacity, is prohibited if it was possible on the part of a “reasonable person” to

conclude that the acceptance of such gifts or favours could directly or indirectly affect one's independence in decision making and conduct as an employee and/ or if it could be seen by others as a consideration for an official or business favour. The “reasonable person” test should also be applied in respect of charitable donations and sponsorships (financial or in-kind) that are made.

The Code of Conduct, and thereby all Group policies apply to all employees and directors. All policies of the Company are readily available to employees in the primary languages used in the country the Company operates in i.e. in Sinhala, Tamil and English.

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

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

### 5.2 Independent Directors

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

### 5.3 Board Sub-Committees

In addition to the KFP Audit Committee, the parent company, JKH PLC's Board Sub-Committees play an important supervisory and monitoring role by focusing on the designated areas of responsibility passed to it by the Board. For more information on the Board Sub-Committees section refer section 3.2 of this Report.

### 5.4 Employee Participation in Assurance

The KFP Group is continuously working towards introducing innovative and effective ways of employee communication and employee awareness. The importance of communication top-down, bottom-up, and lateral-in gaining employee commitment to organisational goals has been conveyed extensively through various communications issued by the Sector President and the management. Whilst employees have many opportunities

to interact with senior management, the Group has created the ensuing formal channels for such communication through feedback, without the risk of reprisal.

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

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

## 5.5 Internal Controls

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

### 5.5.1 Internal Compliance

A quarterly self-certification programme requires the President and Chief Financial Officer of the KFP Group to confirm compliance with statutory and other regulatory procedures, and also identify any significant deviations from the expected norms. In addition, event based compliance triggers are also monitored on a quarterly basis, as relevant.

### 5.5.2 System of Internal Control

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

This also entails automated monitoring and workflow based escalation in order to facilitate timely clearing of all transactional entries including complete reconciliation,

unreconciled and open entries being flagged and periodically scrutinised, and formal disclosure being made to the relevant Audit Committees, efficient management and tracking of cash and cheques deposits, in line with international best practice and continual streamlining and optimisation of the Internal Audit function, via identification of focus areas, improvement opportunities and feedback reporting in order to reinforce governance and assurance.

The KFP Group has in place an integrated fraud deterrent and investigation framework which enables an integrated platform for handling all aspects of fraud and stakeholder assurance; reinforces uniformity across common processes in matters relating to fraud; employs a data driven approach to the continuous assessment of control efficacy and assesses and deploys appropriate preventive and detective controls against frauds.

The digital system for quarterly financial and operational information management implemented last year continues to perform as per expectations facilitating data capturing for compliance reporting, providing a sustainable and structured mechanism to enable top-down and bottom-up stakeholder engagement, and tracking the progression of how the compliance posture at entity level has evolved, among others.

The Forestpin “Internal Audit Scoping” continues to be used to identify areas for process optimisation, strengthening controls and in feedback reporting to reinforce governance (management) and assurance structures.

### Initiatives to Strengthen Internal Controls

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

- Operationalise a structured and integrated multimodal process review framework that encourages auditors to report on value added recommendations, based on independent assessment of fit within the applicable domain of use cases, industry best practice and access to global knowledge bases.
- Ascertain the degree of alignment and enforcement between process controls and information technology functions, particularly in handling the domain of use-cases.

# CORPORATE GOVERNANCE COMMENTARY

- Expand the knowledge base of known types of frauds for which process and system controls have been evaluated, and progressively engage in continuous improvement and feedback initiatives based on cumulative learnings.
- Maintenance of a central repository of data sets associated with each process to undertake retrospective forensic data analysis, as well as the use of the data as a prospective tool as input to steer audit scoping.

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

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

The Group is very aware of the need to ensure that no individual has excessive system access to execute transactions across an entire business process or business processes which have critical approval linkages, in the context that increasing use of information technology and integrated financial controls creates unintended exposures within the Group. SoD dictates that problems such as fraud, material misstatements and manipulation of financial statements have the potential to arise when the same individual is able to execute two or more conflicting, sensitive transactions. Separating disparate jobs into task-oriented roles can often result in inefficiencies and costs which do not meet the cost versus benefit criteria. Whilst the attainment of a zero SoD conflict state is utopian, the Group continues to take steps, to identify and evaluate existing conflicts and reduce residual risks to an acceptable level under a cost versus benefit rationale. No material conflicts were reported during the year.

## 5.5.4 Internal Audit

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

Whilst there are merits and demerits associated with outsourcing an internal audit, the Group is of the

view that having an external based auditor is more advantageous.

## 5.5.4.1 Data Analytics

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

## 5.6 Ombudsperson

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

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

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

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

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

The current Ombudsperson is an attorney-at-law by profession.

## REPORT OF THE OMBUDSPERSON

### Mandate and Role

For purposes of easy reference, Ombudsperson's mandate and role are set out below:

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

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

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

### Ombudsperson

31st March 2022

### 5.7 External Audit

Messrs. Ernst & Young is the External Auditor of the Company and the Consolidated Financial Statements of the Group whereby Luthra and Luthra Chartered Accountants is the external Auditor for the Subsidiary.

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

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

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

### 6 REGULATORY AND ACCOUNTING BENCHMARKS

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

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

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

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

The Group has also given due consideration to the Best Practice on Corporate Governance (2017) Reporting guidelines jointly issued by CA Sri Lanka and have in all instances, barring a few, embraced such practices, voluntarily, particularly if such practices have been identified as relevant and value adding. In the very few instances where the Group has not adopted such best practice, the rationale for such non-adoption is articulated.

### 7 COMPLIANCE SUMMARY

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

# CORPORATE GOVERNANCE COMMENTARY

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

### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule		Compliance Status	Reference in Annual Report
(i)	Names of persons who were Directors of the Entity	Yes	Board of Directors
(ii)	Principal activities of the entity and its subsidiaries during the year, and any changes therein	Yes	Management Discussion and Analysis, Annual Report of the Board of Directors and Financial Statements
(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Yes	Your Share in Detail
(iv)	The float adjusted market capitalisation, public Holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement	Yes	Your Share in Detail
(v)	A statement of each Director's Holding and Chief Executive Officer's Holding in shares of the Entity at the beginning and end of each financial year	Yes	Annual Report of the Board of Directors
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Yes	Enterprise Risk Management
(vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Yes	During the year 2021/22, there were no material issues pertaining to employees and industrial relations of the Group
(viii)	Extents, locations, valuations and the number of buildings of the Entity's land Holdings and investment properties	Yes	Group's Real Estate Portfolio
(ix)	Number of shares representing the Entity's stated capital	Yes	Your Share in Detail
(x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Yes	Your Share in Detail
(xi)	Financial ratios and market price information	Yes	Your Share in Detail and Key Figures and Ratios
(xii)	Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Yes	Notes to the Financial Statements
(xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	N/A	
(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	Yes	Annual Report of the Board of Directors and Notes to the Financial Statements
(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Yes	Corporate Governance report
(xvi)	Related Party transactions exceeding 10 per cent of the equity or 5 per cent of the total assets of the Entity as per audited Financial Statements, whichever is lower	Yes	Corporate Governance Commentary/Note 38 of the Notes to the Financial Statements

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

### MANDATORY PROVISIONS - FULLY COMPLIANT

CSE Rule		Compliance Status	Reference in Annual Report
<b>7.10 Compliance</b>			
a./b./c.	Compliance with Corporate Governance Rules	Yes	KFP Group is in compliance with the Corporate Governance Rules and any deviations are explained where applicable.
<b>7.10.1 Non-Executive Directors (NED)</b>			
a./b./c.	At least 2 members or 1/3 of the Board, whichever is higher should be NEDs	Yes	All Board members are NEDs. The KFP Group is conscious of the need to maintain an appropriate mix of skills and experience in the Board and to refresh progressively its composition over time.
<b>7.10.2 Independent Directors</b>			
a.	2 or 1/3 of NEDs, whichever is higher shall be "independent"	Yes	4 out of the 8 NEDs are Independent.
b.	Each NED to submit a signed and dated declaration of his/her independence or non-independence	Yes	Independence of the Directors has been determined in accordance with CSE Listing Rules and the 4 Independent NEDs have submitted signed confirmation of their independence.
<b>7.10.3 Disclosures Relating to Directors</b>			
a./b.	Board shall annually determine the independence or otherwise of NEDs	Yes	Each NED discloses a formal declaration to the Board of all their interests on an annual basis
c.	A brief resume of each Director should be included in the Annual Report including the directors' experience	Yes	Board of Directors section of the Annual Report
d.	Provide a resume of new Directors appointed to the Board along with details	Yes	Board of Directors section of the Annual Report, Detailed resumes of the new NEDs appointed are submitted to the CSE. It is noted that there were no new appointments to the KFP Board.
<b>7.10.4 Criteria for Defining Independence</b>			
a. to h.	Requirements for meeting the criteria to be an Independent Director	Yes	Corporate Governance - Managing Conflicts of Interests and Ensuring Independence
<b>7.10.5 Remuneration Committee</b>			
a.1	Remuneration Committee shall comprise of NEDs, a majority of whom will be independent	Yes	The Human Resources and Compensation Committee of the Parent Company (equivalent of the Remuneration Committee with a wider scope) only comprises of Independent NEDs.
a.2	One NED shall be appointed as Chairman of the Committee by the Board of Directors	Yes	The Senior Independent NED is the Chairman of the Committee.
b.	Remuneration Committee shall recommend the remuneration of the Chairman and the Executive Directors	Yes	The remuneration of the Chairman and the Executive Directors are determined as per the remuneration principles of the JKH Group, and as recommended by the Human Resources and Compensation Committee.
c.1	Names of Remuneration Committee members	Yes	Corporate Governance Report - The Human Resources and Compensation Committee

# CORPORATE GOVERNANCE COMMENTARY

CSE Rule		Compliance Status	Reference in Annual Report
c.2	Statement of Remuneration Policy	Yes	Corporate Governance Report – The Human Resources and Compensation Committee
c.3	Aggregate remuneration paid to EDs and NEDs	Yes	Corporate Governance Report and Financial Statements
<b>7.10.6 Audit Committee</b>			
a.1	Audit Committee (AC) shall comprise of NEDs, a majority of whom should be independent	Yes	The Audit Committee comprises only of Independent NEDs.
a.2	A NED shall be the Chairman of the committee	Yes	The Chairman of the Audit Committee is an Independent NED.
a.3	CEO and CFO should attend AC meetings	Yes	The Industry Group President, Chief Financial Officer and CEO are permanent invitees to all Audit Committee meetings.
a.4	The Chairman of the AC or one member should be a member of a recognised professional accounting body	Yes	The Chairman of the Audit Committee is a member of a recognised professional accounting body.
b.	The Functions of the Audit Committee	Yes	The Audit Committee carries out all the functions prescribed in this section.
b.1	Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with SLFRS/LKAS	Yes	Refer the Report of the Audit Committee
b.2	Overseeing the compliance with financial reporting requirements, information requirements as per laws and regulations	Yes	Refer the Report of the Audit Committee
b.3	Overseeing the process to ensure the internal and risk management controls, are adequate, to meet the requirements of the SLFRS/ LKAS	Yes	Refer the Report of the Audit Committee
b.4	Assessment of the independence and performance of the Entity's External Auditors	Yes	Refer the Report of the Audit Committee
b.5	Make recommendations to the Board pertaining to External Auditors	Yes	Refer the Report of the Audit Committee
c.1	Names of the Audit Committee members shall be disclosed	Yes	Refer the Report of the Audit Committee
c.2	Audit Committee shall make a determination of the independence of the external auditors	Yes	Refer the Report of the Audit Committee
c.3	Report on the manner in which the Audit Committee carried out its functions.	Yes	Refer the Report of the Audit Committee

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

#### MANDATORY PROVISIONS - FULLY COMPLIANT

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

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

#### MANDATORY PROVISIONS - FULLY COMPLIANT

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

# CORPORATE GOVERNANCE COMMENTARY

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

### VOLUNTARY PROVISIONS - FULLY COMPLIANT

<p><b>Directors</b></p>	<ul style="list-style-type: none"> <li>• The Group is directed, controlled and lead by an effective Board that possess the skills, experience and knowledge and thus all Directors bring independent judgement on various subjects, particularly financial acumen.</li> <li>• Whilst there is a transparent procedure for Board Appointments, election and re-election, subject to shareholder approval, takes place at regular intervals.</li> </ul>
<p><b>Directors' Remuneration</b></p>	<ul style="list-style-type: none"> <li>• The Human Resource and Compensation Committee, consisting of exclusively NEDs of John Keells Group is responsible for determining the remuneration of President/Sector Head/ED.</li> <li>• ED compensation includes performance related elements in the pay structure. Compensation commitments in the event of early termination, determination of NED remuneration, remuneration policy and aggregate remuneration paid is disclosed under Section 3.112 and is in line with the Code.</li> </ul>
<p><b>Relationship with Shareholders</b></p>	<ul style="list-style-type: none"> <li>• There is constructive use of the AGM, as per Code. Notice of Meeting, with adequate details, is circulated to shareholders as per statute.</li> <li>• The Group has in place multiple channels to reach shareholders as discussed under Section 4.6.1.</li> </ul>
<p><b>Accountability and Audit</b></p>	<ul style="list-style-type: none"> <li>• Interim and other price sensitive and statutorily mandated reports are disclosed to Regulators. As evident from the Annual Report of the Board of Directors, the Group carried out all business in accordance with regulations and applicable laws, equitably and fairly.</li> <li>• The Group continues to be a going concern and remedial action for any material events is in place.</li> <li>• All related party transactions are reported under the Notes to the Financial Statements.</li> <li>• There is an annual review of effectiveness of Internal Control which ensures the maintenance of a sound system of internal control.</li> <li>• The Internal Audit function and the Audit Committee, functions as stiputed by the Code.</li> </ul>
<p><b>Institutional Investors</b></p>	<ul style="list-style-type: none"> <li>• The Group conducts regular and structured dialogue with shareholders based on a mutual understanding of objectives. This is done via the Investor Relations team and through the AGM.</li> </ul>
<p><b>Other Investors</b></p>	<ul style="list-style-type: none"> <li>• Individual shareholders investing directly in shares of the Group are encouraged to carry out adequate analysis and seek independent advice in all investing and/or divesting decisions. They are encouraged to participate at the AGM and exercise their voting rights and seek clarity, whenever required.</li> </ul>
<p><b>Sustainability Reporting</b></p>	<ul style="list-style-type: none"> <li>• The Group places emphasis on sustainable development and value creation. The Group's Sustainability Management Framework includes strategies for entrenchment of sustainability through awareness creation, monitoring and sustainability assurance.</li> <li>• The Report has been prepared in accordance with the GRI Standards: Core option and International &lt;IR&gt; Framework</li> </ul>

## 7.5 Code of Best Practices on Corporate Governance (2017) issued by CA Sri Lanka

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

**KEELLS**  
**KREST**