

CORPORATE GOVERNANCE

Our Corporate Governance philosophy founded on a culture of performance within a framework of conformance and compliance represents “what it takes” to succeed in today’s competitive business environs in a manner that is sustainable and equitable to all our stakeholders. This philosophy has been institutionalised at all levels in the group through a strong set of corporate values and written code of conduct.

A key reference point in most of our corporate governance disclosures in 2008/09 is the new listing rules of the Colombo Stock Exchange (CSE), which became effective in April 2009 and which JKH is in full compliance with as at 31 March 2009. The JKH Annual Report itself is produced and circulated to shareholders on CD-ROM in line with rule 7.2 of the CSE listing rules and available as a comprehensive printed document on request. Additionally, the CD-ROM is accompanied by a printed summary for shareholder convenience.

The underlying framework of our disclosures supports the Companies Act of 2007, on which we are fully compliant. Some of the issues for which we sought greater definition last year were resolved during the year with dialogue and discussion. We follow, and comply with, the recommendations of the Combined Code of 2006 to the extent that they are practicable in the context of the nature of our diverse businesses and their risk profiles. Our policy in this regard, is to comply, or explain. The following report, also addresses all provisions of the Code of Governance of the Institute of Chartered Accountants of Sri Lanka.

JKH corporate governance framework

John Keells Holdings PLC (JKH) is committed to the highest standards of business integrity, ethical values and professionalism in all its activities towards rewarding all its stakeholders with greater creation of value, year-on-year. Our governance framework is based on the following -

- The board of JKH is responsible to shareholders to fulfil its stewardship obligations, in the best interest of the company and its stakeholders
- Maximising shareholder wealth-creation on a sustainable basis while safeguarding the rights of multiple stakeholders is a fundamental value shared by all levels of our management and staff
- The methods we employ to achieve our goals are as important to us as the goals themselves, and this has been well communicated to the individual businesses and functional units within the group
- Our governance and operating model facilitate the making of business decisions, and resource allocations, in an efficient and timely manner, within a framework that ensures transparent and ethical dealings which are compliant with the laws of the country and the standards of governance our stakeholders expect of us. The model ensures that no one person has unfettered powers of decision making
- We believe that building and improving stakeholder relationships is an integral aspect of board effectiveness and a responsible approach to business
- We take an active role in discussing with the relevant regulatory bodies the implementation of governance regulations, accounting standards, and economic reforms in Sri Lanka and other jurisdictions where the group has major business interests

- We opt, when practical, for early adoption of best practice governance regulations and accounting standards
- We understand that our resolve to maintain strong governance practices presents strong commercial advantages especially through a lowering of our cost of capital because of the strengthening of stakeholder confidence, particularly the confidence of our investors, both institutional and individual

THE BOARD OF DIRECTORS

Board responsibilities and decision rights

The Board of Directors is accountable to the shareholders for the governance of the company. All directors are accountable for the proper stewardship of the company’s affairs and share a responsibility in ensuring the highest standards of disclosure and reporting, ethics and integrity across the group. Powers specifically reserved for the board as highlighted in the JKH ‘decision matrix’ include -

- Providing direction and guidance to the company in the formulation of its strategies and in the pursuance of its operational and financial goals
- Monitoring systems of governance and compliance
- Overseeing systems of internal control and risk management
- Determining any changes to the discretions/authorities delegated from the board to the executive levels
- Approving major acquisitions and disposals and capital expenditure
- Reviewing HR processes with emphasis on top management succession planning
- Approving annual budgets and strategic plans
- Approving any changes to constitutional documents and the issue of JKH equity/debt securities
- Appointing and reviewing the performance of the Chairman-CEO

Delegation of authority

The board has, subject to pre-defined limits, delegated its executive authority to the Chairman-CEO who exercises this authority through the Group Executive Committee (GEC), which he heads and to which he provides leadership and direction.

While the board sets the high level strategic direction and the overall policy framework of the group, it has delegated the implementation of board set strategies/policies and strategy formulation at specific industry-group level to the Chairman-CEO. Details of the group’s management, operating and overlay structures are detailed later in the report.

Board decision rights, as opposed to executive director decision rights, covering people, strategy and planning and finance are well defined and meticulously followed and ensure the balance between the speed of decision and appropriate debate. These decision rights are subjected to regular review and were recently revised to reflect the current needs of the group.

The board has also delegated some of its functions to board committees while retaining final decision rights pertaining to matters under the purview of these committees. The Audit Committee and Remuneration Committee consist solely of independent directors whilst 3 out of the 4 members of the Nominations Committee, the exception being the Chairman-CEO of the company, are independent directors. All three committees are chaired by independent directors appointed by the board.

Role of the Chairman-CEO

The Chairman, who is also the Chief Executive Officer (CEO), is responsible for leading the board and for its effectiveness, as well as executing the strategies and policies of the board. During a recent board evaluation, the appropriateness of combining the roles of Chairman and CEO was revisited and on the basis of the 'pros' and 'cons' that emerged from it, the board deemed that combining the two roles is more appropriate for the group at present, in meeting stakeholder objectives in a conglomerate setting.

The Chairman, while leading the board in effectively discharging its duties towards all stakeholders, ensures with the assistance of the Board Secretary, that board procedures are followed and directors receive timely, accurate and clear information before board meetings and updates on matters arising between meetings. As the CEO, he guides and supervises executive directors in striking a balance between their board and executive responsibilities. The Chairman also ensures that constructive working relations are maintained between the executive and non-executive members of the board so that every member is able to contribute effectively within their respective competencies. Finally, he sets the tone for the governance and ethical framework of the group.

The board composition, group organisation, and in particular, the committee overlay structures discussed, under the heading Organisational & operational control later in this report, ensure that no one individual has unfettered powers of decision making. As the head of the Group Executive Committee (GEC), the Chairman-CEO provides the overall direction and policy/execution framework for the board's decisions via this structure. Experience has proved that this structure has enabled him to effectively balance his role as the Chairman of the board and the CEO of the company/group.

Board meetings, agenda and attendance

As a general rule, the board of JKH meets once every quarter, in the least. During the year under review, the board met on 5 occasions; 4 being regular meetings and 1 being a special-purpose meeting.

The formal schedule of matters reserved for board consideration, and decision, include the items summarised under 'Board

responsibilities and decision rights' as aforementioned, and other matters having a material effect on the company and the group.

Your board states that every one of its members dedicated adequate time and effort in discharging their duties and that member attendance during board meetings and board committee meetings was healthy.

Allowing for non-executive director involvement in various board committees and time spent by them in considering various matters that require discussion, and decision, in between the formal board meetings, the company estimates that non-executive directors devoted around 30 full time equivalent days each to the group during the year.

Board composition and independence

As at the immediately preceding Annual General Meeting (AGM) of JKH, the board consisted of 10 directors of whom 4, including the Chairman, were executive and 6 were non-executive. As at the date of this report, the board consists of 9 members, comprising of 4 executive and 5 non-executive directors. The board considers that all 5 non-executive directors, who constitute a majority on the board, are independent in accordance with the criteria suggested by the Combined Code and the criteria of the CSE Listing Rules of April 2009 and have been identified as such in the board profiles given earlier in this report. The 5 independent non-executive members have submitted signed confirmations of their independence.

Senior Independent Director

The non-executive directors had structured direct discussions with the Chairman-CEO, on 1 occasion during the year, without the presence of the other executive directors. During the year, Franklyn Amerasinghe was appointed as the Senior Independent Director. The terms of reference of the role include leading the evaluation and appraisals of the performance of the Chairman-CEO, chairing the Nominations Committee when considering succession for the role of Chairman-CEO, acting as the point of contact for stakeholders with concerns which have failed to be resolved through the normal channels, acting as an alternative point of contact to the Chairman-CEO for executive directors, meeting with the other non-executive directors on at least an annual basis and addressing any concerns with the Chairman-CEO or the board as appropriate.

All the other non-executive directors are encouraged to propose discussion items and are provided with the agenda and supporting material well in advance to facilitate awareness and preparation.

The board is of the view that its present composition ensures a right balance between executive expediency and independent judgement. Collectively, the non-executive directors bring a range

Attendance of board and committee meetings	Board meetings		Nominations Committee meetings		Remuneration Committee meetings		Audit Committee meetings		
	HEA	A	HEA	A	HEA	A	HEA	A	
S Ratnayake - <i>Chairman</i> *	5	5	1	1	-	-	-	-	
A Gunewardene	5	5	-	-	-	-	-	-	
S Gunsekera **	5	5	-	-	-	-	-	-	
R Peiris *	5	5	-	-	-	-	-	-	
F Amerasinghe - <i>Chairman, Remunerations Committee</i>	5	5	-	-	1	1	6	5	
T Das - <i>Chairman, Nominations Committee</i>	5	3	1	1	-	-	-	-	
S Enderby	5	4	1	1	-	-	6	5	
M Muhsin ***	5	4	1	1	1	1	-	-	
D Rodrigo - <i>Chairman, Audit Committee</i>	5	5	-	-	1	1	6	6	
S Tiruchelvam	5	5	1	1	-	-	6	2	
<i>HEA - Meetings held and eligible to attend</i>		<i>A - Attended</i>							
* Permanent attendees to the Audit Committee ** Retiring w.e.f. 30 June 2009 *** Resigned w.e.f. 1 March 2009									

of value adding domestic and international experience, and expertise, in specialised functions. The company is conscious of the need to maintain an appropriate mix of skills and experience on the board and to refresh progressively its composition over time. The company also notes the value that has been brought to bear by the non-executive directors on the governance of the group. Biographical details of directors are set out in the Board of Directors section of the Annual Report. The non-executive directors of the board collectively possess strong financial acumen and are in good positions to assess the integrity of the group's financial reporting systems and controls, continually review and critique these systems and make changes to them as necessary.

Conflicts of interest and independence

Over and above the issue of independence, each director has a continuing responsibility to determine whether he or she has a potential or actual conflict of interest arising from external associations, interests or personal relationships, in material matters which are considered by the board from time to time. Directors who have had an interest in a matter under discussion have excused themselves from deliberations on the subject matter and have abstained from voting on them. Abstentions, where applicable, from board decisions, are duly minuted.

Prior to appointment to the board, eligible persons are requested to make known their various interests that could potentially conflict with the interest of the company. Once appointed to the board, all directors are expected to inform the board and obtain board clearance prior to accepting any position, or engaging in any transaction that could create a potential conflict of interest. All non-executive directors are required to notify the Chairman-CEO of changes to their current board representations. Details of companies in which board members hold board or board committee membership is available with the company, for inspection by shareholders on request.

Name of director	Type	Involvement/interest		
		Share Holding	Management	Material business relationship
S Ratnayake	ED	Yes	Yes	No
A Gunewardene	ED	Yes	Yes	No
S Gunesekera*	ED	Yes	Yes	No
R Peiris	ED	Yes	Yes	No
F Amerasinghe	NED/SID	Yes	No	No
T Das	NED/ID	No	No	No
S Enderby	NED/ID	No	No	No
M Muhsin**	NED/ID	Yes	No	No
D Rodrigo	NED/ID	No	No	No
S Tiruchelvam	NED/ID	No	No	No

ED - executive director, NED - non-executive director, SID - senior independent director ID - independent director

* retiring w.e.f. 30 June 2009

** resigned w.e.f. 1 March 2009

Although Franklyn Amerasinghe and Tarun Das have completed 3 terms of 3 years each, the board considers them 'independent' given their objective and unbiased approach to matters of the board.

Supply of information and board induction

All directors are fully briefed on important developments in the various business activities of the group and they regularly receive information concerning the group's operations, finances, risks, its employees and potential conflicts of interest situations to enable them to fulfil their duties and obligations effectively.

Steps are also taken in ensuring that newly appointed non-executive directors are apprised of the operations of the group, its strategies, its values and culture, its operating model, its policies, governance framework and processes. Their attention is

also drawn to their responsibilities as directors in terms of prevailing legislation and to the code of conduct demanded by the company.

The directors have access to external and internal auditors, experts, senior managers under a structured arrangement and to information, as is necessary, to carry out their duties and responsibilities effectively and efficiently. Apart from periodic performance reports, directors also receive information updates from management on topical matters, new regulations and best practices as relevant to the group's businesses. Additionally, all directors have access to the services of the company secretaries whose appointment and/or removal is the responsibility of the board.

External professional advice

The board seeks independent professional advice when and where necessary. During the year under review, professional advice was sought on various matters including-

- The legal, tax and accounting aspects covering the Supreme Court judgement on the privatisation of Lanka Marine Services
- Various tax related issues, including deferred taxation, given rapidly changing tax regulations
- Impacts of the global financial crisis and recession on Sri Lankan and regional business and the JKH businesses in particular
- Studies, including regulatory and taxation, on countries where new investment is contemplated
- Sustainability reporting

Board and CEO's performance appraisal

The board continued with its annual board performance appraisal in 2008/09. It is a formalised process of self appraisal, whereby each member assesses, on an anonymous basis, the performance of the board under the headings of 'role clarity and effective discharge of responsibilities' (in relation to the responsibilities highlighted earlier in this report), 'people mix and structures', 'systems and procedures', 'quality of participation' and 'board image'. The scoring, and open comments, were collated by the Senior Independent Director and the results were analysed to give the board an indication of its effectiveness as well as areas that required addressing and/or strengthening. The open and frank discussions that followed the evaluation reflected the keenness of the board on doing "what it takes" to make the board more effective. While the analysis concluded that the board was functioning effectively, it did highlight some areas which could be improved on and action plans to address such highlighted issues were agreed upon.

The Remuneration Committee, chaired by the Senior Independent Director, appraises the performance of the Chairman-CEO on the basis of pre-agreed objectives for the group set in consultation with the board. Such performance is not merely judged in terms of the group's performance against plan but also considers the group's performance against its peers in areas such as revenue growth, market share, profit growth and earnings per share. Non quantifiable issues such as company image, customer orientation, human resource management and societal trust are also considered in the overall assessment.

Board appointments and Nominations Committee

The responsibility for identifying and proposing suitable candidates for appointment as non-executive directors to the board of JKH, in keeping with the target board composition and skill requirements, lies with the Nominations Committee. It also manages the process of appointing the Chairman-CEO of JKH.

Board appointments follow a formal and transparent procedure. There were no new appointees to the board in the financial year 2008/09.

During the major part of the year, the Nominations Committee comprised of 4 independent directors (including the chairman of the committee) and the Chairman-CEO of JKH.

The detailed Nominations Committee report is given in the Board Committee reports section of the Annual Report.

Tenure, retirement and re-election

The executive directors are appointed and recommended for re-election only until their prescribed company retirement age. The non-executive directors on the other hand, are appointed for a term of three years, ideally up to a maximum of three terms each subject to the age limit as per statutory provision at the time of re-appointment following the end of a term.

One-third of the directors, except the Chairman-CEO, retire by rotation on the basis prescribed in the articles of the company. A director retiring by rotation is eligible for re-election by a shareholder resolution at the annual general meeting.

All directors are subject to election by shareholders at the first AGM after their appointment. The board recommends that shareholders vote in favour of the resolutions to elect the relevant directors who come up for re-election at the AGM. Their biographical profiles have been provided in the Annual Report. The resolutions cover the re-election of Tarun Das who retires in line with section 210 of the Companies Act 2007, upon reaching the age of 70, as well as P D Rodrigo and S S Tiruchelvam who retire by rotation this year and become eligible for election at the AGM to be held on the 26 June 2009.

Mohamed Muhsin resigned from the board on 1 March 2009, while Sumithra Gunasekera will retire with effect from 30 June 2009.

REMUNERATION

A customised 'pay for performance' scheme based on the pillars of individual performance rating and organisational performance rating was implemented during the previous financial year for all group employees at manager level and above, and on the pillar of individual performance rating only for all group employees at assistant manager and executive levels. The rationale for the exclusion of organisational rating in linking pay to performance at the lower levels was that the individuals at those levels had little direct influence on the bottom line of their organisations. It has been widely accepted that the scheme has achieved the objectives of employee motivation towards better performance, greater employee recognition and reward and the alignment of employee, management and stakeholder interests. Organisational ratings are determined using the annual plan as the yardstick. The difficulties in being able to formulate these 'yardstick' plans in a very volatile and uncertain environment is posing great challenges to management and some refinement to the current methodology is necessary and is being currently discussed.

The pay for performance system has, as its bedrock, the performance management system that the group has been perfecting over the last few years and the detailed remuneration surveys that the group conducts on a regular basis. Additionally, the group also engages in ongoing reviews of remuneration obtained via the participation in other corporate surveys when they are relevant to the group.

Remuneration Committee

The Remuneration Committee, comprising 3 independent directors, is responsible for assisting the Board of Directors in establishing remuneration policies and practices in the group and

in reviewing and recommending to the board appropriate remuneration packages for the Chairman-CEO and the other executive directors. The Committee has been fully apprised of the current remuneration policy of the group, the measures taken by the group regarding staffing and remuneration during the next 12 to 18 months, where the global economy is expected to be in recession, and the local economy in a slow down, and on the 'pros' and 'cons' of the currently prevailing share based long term incentive plans.

The Remuneration Committee in consultation with the Chairman-CEO ensures that-

- Levels of remuneration are sufficient to attract, retain and motivate directors of the desired quality at the right price
- Share options are not awarded below market price, and
- Statutory and legal requirements are complied with

None of the executive directors or members of the GEC are involved in influencing, or determining, their own compensation packages.

For the purpose of this report, the terms 'compensation' and 'remuneration' have been used in reference to cash and non-cash benefits received in consideration of employment (excluding statutory entitlements such as employees provident fund and employees trust fund contributions), unless otherwise qualified.

The detailed Remuneration Committee report is given in the Board Committee reports section of the Annual Report.

Key principles

The key principles underlying the group's remuneration policy are-

- All Assistant Vice President (AVP) and above roles across the group have been banded by an independent third party on the basis of the relative worth of jobs, thereby enabling internal equity
- Compensation is set at levels that are competitive to enable the recruitment and the retention of high calibre executives in the identified career levels/job bands - as guided by the median, 65th percentile and 75th percentile of the best comparator set of companies (from Sri Lanka and the region, where relevant)
- Compensation, comprising of fixed (base) payments, short term incentives and long term incentives are tied to individual performance at all levels and organisational performance at manager levels and above
- Performance is measured annually on well defined individual and organisation objectives and metrics which reflect, and are positively correlated to, the company's objectives, thereby aligning employee, management and stakeholder interests. Organisational ratings are additionally modified to reflect market conditions via a set of pre-agreed peer comparators. As was explained earlier, the prevailing volatility and uncertainty in the current operating environment are posing challenges to management in establishing annual plans.
- The more senior the level of management, the higher the proportion of the incentive component, and thereby lower proportion of the fixed (base) component of total compensation
- As the decision influencing capability of the position on organisational results, increases, the individual performance holds lesser weightage than the organisational performance when determining total compensation and incentives

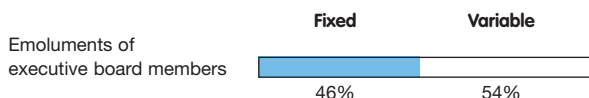
- Long term incentives have, for sometime, taken the form of Employee Share Options (ESOP) and were offered to employees, in defined career levels, based on pre-determined criteria which are uniformly applied across the same. Such options were offered at market prices prevailing on the date of the offer. The group's ESOP scheme is presently being reviewed considering global evolvments and its validity in the context of the financial crisis and global recession and their impacts on the economic and financial markets. The last ESOP award was made on 25 March 2008.
- All remuneration policies are based on considerations of affordability and sustainability
- Communication and transparency in current and proposed policies

Board remuneration

The remuneration of the Chairman-CEO, the executive directors and other members of the Group Executive Committee are determined as per the above principles. At these higher levels, the benchmark weightage between individual and organisation performances in establishing compensation is a 20:80.

The remuneration of executive directors have a significant element which is variable, such variability being linked to the peer adjusted consolidated group bottom-line and minimum returns on shareholder funds.

The ratio between fixed and variable in 2008/09, with variable being based on the actual performance in 2007/08 was;



Compensation of non-executive directors (NEDs) is determined in reference to fees paid to other NEDs of comparable companies. The fees received by NEDs is determined by the board and reviewed annually.

NEDs receive a fee for devoting time and expertise for the benefit of the group in their director capacities and additional fees for either chairing or being a member of a committee. NEDs do not receive any performance/incentive payments and are not eligible to participate in any of the group's pension plans or share option plans. Non-executive fees are not time bound or defined by a maximum/minimum number of hours committed to the group per annum, and hence is not subject to additional/lower fees for additional/lesser time devoted.

Make-up of remuneration for executive directors

The levels and make-up of remuneration, organisation-wide, are linked to the key principles highlighted before.

In order to further align the interests of executive directors and shareholders, the executive directors, like other eligible employees, have received employee share options based on role responsibility and actual performance against the same. The number so awarded was recommended to the board by the remuneration committee. Such options were awarded at the closing market price on the date of award. The last ESOP Award was made on the 25 March 2008 but no award was made in 2008/09.

The share options made available to each of the executive directors for the year has been disclosed in the Annual Report of the Board of Directors 2008/09.

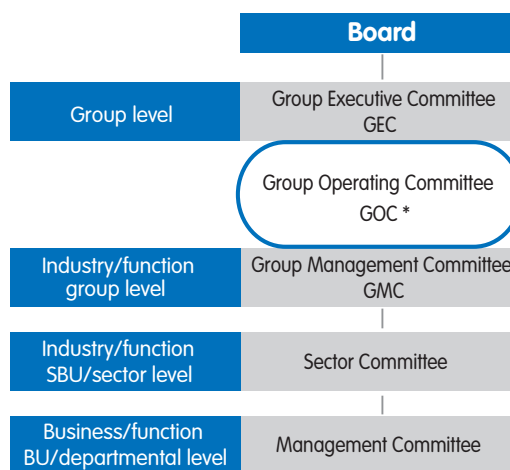
Value of total remuneration (cash)	Rs. million
Executive directors (company)	122
Non-executive directors (company)	11

'Cash' compensation highlighted above comprises salary, pension contributions, short term incentive plans and other non-share based benefits. In accordance with the guidelines of the Securities & Exchange Commission of Sri Lanka, we have disclosed the aggregate remuneration paid to executive and non-executive directors during the financial year 2008/09.

ACCOUNTABILITY AND AUDIT

Organisational and operational control

The operating model currently in place clearly defines authority limits, responsibilities and accountability facilitating operating expediency, healthy debate and decision freedom. The committee structure, as depicted below, whilst ensuring that no one operating body or individual has unfettered powers of decision making, allows consensus to as great an extent as practical, but it is the Chairman-CEO, the presidents, sector/functional heads and profit centre/function managers, who are accountable for the total group, industry/ functions groups, the sectors/functions and the business units/sub-functions respectively.



** Is not a decision making body but acts as a conduit between the GEC and the GMCs*

The independence of the finance function is preserved through a structure that has executive vice presidents - finance and sector financial controllers having a direct functional reporting line to the Group Finance Director in a setting that allows them to contribute and add value to operations via their direct administrative reporting links with presidents and sector heads.

Group Executive Committee (GEC) and succession planning

As at 31 March 2009, the 8 member GEC consisted of the Chairman-CEO, the Deputy Chairman, the executive director presidents and the presidents. Two executive vice presidents with specific responsibility for 2 industry groups have been permanent invitees to the GEC since 1 January 2009 in a move to spread the 'accountability load' over a greater number of persons. This move was necessary in order to sharpen the execution and delivery of the agreed plans.

The GEC is the overlay structure that implements, under the leadership and direction of the Chairman-CEO, the policies and strategies determined by the board, manages, through delegation and empowerment, the business and affairs of the group and makes portfolio decisions and prioritises the allocation of capital, technical and human resources.

The GEC also assists the Chairman-CEO in succession planning and the appointment of presidents, sector heads, functional heads and other senior managers and the career management of assistant vice presidents and above. This process is well tested and, on a proactive basis, a pool of potential successors for a number of key positions is identified and earmarked for specific training and development as is necessary. A key feature of the operating model is that the GEC members, particularly the presidents, not only play a mentoring role, but are totally accountable for the businesses and functions under them.

Group Operating Committee (GOC)

As at 31 March 2009, the 21 member GOC consisted of the Chairman-CEO, the Deputy Chairman, the executive director presidents, the presidents and the executive vice presidents.

The GOC provides a platform to share learning on issues that cross industry groups, sectors, business units and functions. It is also the forum to discuss group strategy, group initiatives and group best practices. Its main purpose is to act as a 'conduit' between the various businesses within the group towards identifying and extracting group synergies and the implementation of such.

Group Management Committee (GMC) and other committees and succession planning

The other key operating committees are the GMCs, the Sector Committees and the Management Committees that focus on strategy, performance monitoring, career management and succession planning of employees below assistant vice president level, risk management and group initiatives at an industry group, sector, strategic business unit and business unit levels respectively. Functions have GMCs and functional committees. Business and Function units are encouraged to take responsibility and accountability to the lowest possible level via suitably structured committees and teams in a management by objectives setting.

The agendas of these committees are 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 accountabilities and information. As stated earlier, the responsibility and accountability lie with the Chairman-CEO, the presidents, the sector/functional heads and the profit centre/function managers as applicable.

The introduction of peer adjusted organisational ratings in 2007/08 in determining pay for performance has resulted in the search by business units, sectors and industry group of productivity enhancements, process improvements and cost efficiencies within a framework of better teamwork.

Operations planning, monitoring and decision rights

A planning and monitoring process, which facilitates and encourages the involvement of staff through annual plans that articulate strategy at industry group, sector, strategic business unit, business unit, departmental and functional unit levels, ensures employee involvement and empowerment. Decision rights are defined for each level and this has resulted in an inculcation of a sense of ownership, the reduction of bureaucracy and speedier decision-making. Annual and five year plans are formulated on a bottom-up basis using futuristic scenarios developed by the GEC and GMCs and macro economic factors developed by the corporate centre.

Actuals are compared against the original plan and/or the reforecast on a monthly basis at GMC, Sector Committee, Management Committee and Departmental Committee levels and are reviewed at least quarterly by the GEC. The Chairman-CEO and the GEC are able to view key financial information for all

group companies on a real time basis via the group ERP system while the presidents and executive vice presidents, the CEOs of business units and managers of functions are able to view, on an online basis, information relevant to their areas of responsibility.

Responsibility for monitoring and achieving plans as well as ensuring compliance with group policies and guidelines rests with the chief executive officers of each group company and heads of functions at the corporate centre at the business unit and function levels.

Individual performance objectives are established for all staff from executives to the Chairman-CEO and such objectives are linked to the group objectives. A performance management system that is founded on the performance objectives and a competency matrix developed as a part of the human resources management process provides the basis for training and development while individual performance ratings coupled with organisational rating, at levels applicable, form the basis of a pay for performance system.

At the GMC level and above, the focus is more on headline financial and non-financial indicators, strategic priorities, risk management, use of IT as a tool of competitive advantage, new business development, continuous process improvements and human resource management.

Process of investment appraisal and investment decision

During the past year, several investors and analysts have enquired about the group's investment decision process and the board has thought it fit to summarise it in this report.

Over the years, the group has maintained a process of investment appraisal and investment decision which ensures the involvement of the relevant persons. In this manner, several views, opinions and advice are obtained prior to the making of the decision. Our experience is that a holistic and well debated view of the commercial viability and potential of any project including operational, financial, funding, risk and tax implications has most of the time culminated in a good result.

A summary of the process is given as follows-

- A project's origin could be an operating committee such as the GEC, GOC, GMC etc, a business unit, the group's internal New Business Development or Corporate Finance functions or alternatively a public advertisement, 'Request for Proposal' or a call for an 'Expressions of Interest'.
- If there is interest in principle, the President of the industry group that the project falls under or a GEC appointed committee will engage the Corporate Finance or New Business Development divisions to work with other relevant persons in the group in preparing a detailed report which would cover key business considerations such as industry overview and trends, the potential operating and financial performance of the project, key assumptions and sensitivities, SWOT and risk analysis, HR issues, IT considerations, tax, funding costs and optimum structuring of the transaction among others. A comprehensive study of the tax regime that applies to the project will be done in order to determine tax incentives available as well as to propose format of incorporation.
- Such a feasibility report is next discussed by the Group Executive Committee (GEC) and if, found to meet the group's strategic and financial objectives, will be forwarded to the board for approval in principle to proceed to detailed due diligence and negotiation if investment is beyond the authority limits of the GEC.
- Once approval in principle is obtained from the GEC and/or the board, as applicable, the project team, which is invariably multi-disciplined, will proceed to the next phase of

investigation which would focus on detailed operational, commercial, financial and legal due diligence. Discussions will also commence with regulatory and licensing authorities and financial institutions and possible partners as relevant and necessary. Social and environmental impacts will also be considered in ensuring the sustainability of the business and the communities touched by it.

- Where the transaction involves the transfer or lease of land, title searches would be conducted for both private and public land. In the case of public land every step would be taken to ensure compliance with the rules and regulations. As appropriate, written authority and approvals will be obtained.
- Where the project is a part of a privatisation, the entire process would be conducted in line with the directives of the relevant administrative authority as communicated through Expressions of Interest, Request for Proposals, pre-bid meetings and official approvals and correspondence. The GEC and/or the Board will appoint a person to lead the discussions on behalf of the company and in most instances this would be the President of the subject industry group.
- Subject to the project satisfying all the criteria as highlighted before, the final approval to proceed will be given by the board.

As is apparent from the foregoing, all investment decisions are made through a committee structure. No one individual has unfettered decision making powers in investment decisions.

Integrity of systems processes and internal control

Your board has taken necessary steps to ensure the integrity of the group's accounting and financial reporting systems and internal control systems and also their review and monitoring on a periodic basis. Our systems covering risk management, financial and operational control, ethical conduct, compliance with legal and regulatory requirements and corporate social responsibility are detailed below.

Audit Committee, external auditors and independence

The Audit Committee comprises of three independent directors. It is governed by a charter which, in the main, covers the principles governing financial reporting, internal control and the management of risks, both financial and operational, and the workings of the committee.

The committee is responsible for the consideration and appointment of external auditors, the maintenance of a professional relationship with them, reviewing the accounting principles, policies and practices adopted in the preparation of public financial information and examining all documents representing the final financial statements. A quarterly self certification programme that requires the chief financial officers of industry-groups, heads of finance of sectors and finance managers of operating units to confirm compliance with financial standards and regulations and requires the CEOs of business units to confirm operational compliance with statutory and other regulations and key control procedures, coupled with the identification of any deviations from the expected norms have significantly aided the committee in its efforts in ensuring correct financial reporting and effective internal control and risk management.

The Chairman-CEO, the Group Finance Director, the Group Financial Controller and the Head of Risk Control and Review and the external auditors are regular invitees to the meetings of the Audit Committee.

The detailed Audit Committee report including the areas reviewed during the financial year 2008/09 is found in the Board Committee report section of the Annual Report.

Although Ernst & Young are the external auditors of the holding company and many other group companies and also audit the consolidated financial statements, the individual group companies employ many other audit firms, these being KPMG Ford, Rhodes, Thornton & Co, Pricewaterhouse Coopers, SJMS Associates, Deloitte and Touché, India and Luthra and Luthra, India. The audits have been distributed in a manner that does not give rise to one dominant external auditor in terms of fees. In addition to the normal audit services, Ernst and Young and the other external auditors, have also provided certain non-audit services to the group.

All such services have been provided with the full knowledge of the respective audit committees and are assessed to ensure that there is no compromise of external auditor independence. The board has agreed that, ideally, 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 auditor also provides a certificate of independence on an annual basis.

We have separately classified the audit and non-audit fees paid by the company and group to our principal auditor, Ernst & Young, and to other auditors of companies in the group in the Notes to the Financial Statements of the Annual Report.

Care is taken to ensure that the internal audit function in group companies is not outsourced to the external auditor of that company. The group attempts, where practical, to give preference to audit firms who are not external auditors of any group company, in carrying out internal audit work in a further attempt to ensure external auditor independence.

The Auditors' report on the financial statements of the company for the year under review is found in the Financial Reports section of the Annual Report.

Combining internal audit, risk management and insurance

During the last financial year, a key move was made in bringing the functions of internal audit, risk management and insurance under a common risk umbrella.

The group has, during the year, benefited from the synergising relationship among these functions and aims to have in place, in the future, subject to further study and cost-benefit/risk-reward analysis, even better risk management and risk transfer mechanisms, including the establishment of a captive insurance scheme that uses the strength of the group balance sheet, in optimising the residual cost of risks. Whilst a lot has been achieved in consolidating risk management and establishing risk transfer mechanisms, the statistical analysis required in crafting a captive insurance vehicle is now available and will be put to use this year.

The proactive identification of all risks, both operational and financial, has helped in ensuring that internal, and external, audit programmes are tailored to the current needs of the subject entities.

System of internal control

Your board has, through the involvement of the Risk Review and Control department, taken steps to gain assurance that systems, designed to safeguard the company's assets, maintain proper accounting records and provide management information are in place and are functioning according to expectations. The risk review programme covering the internal audit of the whole group is outsourced and the reports arising out of such audits are, in the first instance, considered and discussed at the business/functional unit levels and after review by the sector head and the president of the industry group are forwarded to the relevant audit committee on a regular basis. Further, the audit committees also

assess the effectiveness of the risk review process and systems of internal control on a regular basis. Follow-ups on internal audits are done on a structured basis.

Risk management

The GEC has adopted a group-wide risk management programme to identify, evaluate and manage significant group risks and stress-test for various risk scenarios. The programme ensures that a multitude of risks, arising as a result of the group's diverse operations, are effectively managed in creating and preserving shareholder and other stakeholder wealth. The detailed Risk Management report of the Annual Report describes the process of risk management as adopted by the group and the key risks to the achievement of the group's strategic business objectives.

Going concern and financial reporting

The directors are satisfied that the company has sufficient resources to continue in operation for the foreseeable future. In the unlikely event that the net assets of the company fall below a half of shareholders funds, shareholders would be notified and an extraordinary resolution passed on the proposed way forward.

The going concern principle has been adopted in preparing the financial statements. All statutory and material declarations are highlighted in the Annual Report of the Board of Directors in the Annual Report. Financial statements are prepared in accordance with the Sri Lanka Accounting Standards (SLAS), including all the new standards introduced during the subject year, and International Accounting Standards (IAS), as applicable.

Information in the financial statements of the Annual Report are supplemented by a detailed 'Management Discussion and Analysis' which explains to shareholders the strategic, operational, investment and risk related aspects of the company that have translated in to the reported financial performance and are likely to influence future results.

The Statement of Directors' Responsibilities in relation to financial reporting is given in the Financial Reports section of the Annual Report. The directors' interests in contracts of the company are addressed in the Annual Report of the Board of Directors.

The directors have taken all reasonable steps in ensuring the accuracy and timeliness of published information and in presenting an honest and balanced assessment of results in the quarterly and annual financial statements. As discussed in the shareholder relations section of this note, all price sensitive information has been made known to the Colombo Stock Exchange, shareholders and the press in a timely manner and in keeping with the regulations.

Ethical and responsible decision making

The board encourages management to promote value-based decision making across the organisation. The culture within JKH draws upon a set of unifying values to guide the actions and decisions of the board and all employees. The group's values are found in the 'About Us' section of the Annual Report and are/have been constantly referred to by the Chairman-CEO, presidents and BU heads during employee, agent and other key stakeholder engagement. The group believes that the main source of its competitive advantage is the trust that the stakeholders place on the core values underlying its corporate activities.

The JKH values are displayed in the group's intranet and also disseminated in many other ways, including new employee induction sessions, feedback sessions and performance management feedback sessions. The senior management of the group, generally recognised as AVP and above grades including the Chairman-CEO, are expected to walk the talk and their management behaviour is monitored through an annual 360-

degree feedback. All the group's recognition schemes insist, as a minimum, that all nominees have lived the JKH values.

Code of conduct

A 'Code of Conduct' has been formally communicated to all employees, executives and above and is now a component of the employee self service portals and is based on four basic principles, namely-

- The allegiance to the company and the group
- The compliance with rules and regulations applying in the territories that the group operates in
- The conduct of business in an ethical manner at all times and in keeping with acceptable business practices, and
- The exercise of professionalism and integrity in all business and 'public' personal transactions

The subject employees are expected to adhere to the code in the performance of their official duties and in other situations that could affect the group's image and are expected to entrench the expected behaviour at all levels in the organisation through communication and role modelling.

Securities trading policy

The group's securities trading policy prohibits all employees and agents engaged by JKH who are aware of unpublished price-sensitive information from trading in JKH shares or the shares of other companies in which the group has a present business interest. The board, GEC, GOC as well as certain identified employees in senior executive roles who are privy to JKH's results prior to its availability to the public are prohibited from trading during periods leading up to the release of quarterly and annual results, new investments, particularly mergers and acquisitions, announcements of scrip issues and dividend payments.

Open communications

JKH board believes in maintaining open-door policies for its employees and key stakeholders and this is promoted at all levels of the group.

Given the hierarchical structures that are unavoidable in an organisation as diverse as JKH, the entrenchment of open communications is yet to take the form and be in the extent desired. The importance of communication, top-down, bottom-up and lateral in gaining employee commitment to organisational goals through a sense of belonging as a result of being better informed has been emphasised through various communiqués issued by the Chairman-CEO and other senior managers.

Skip-level meetings, which were conducted throughout the group companies in 2008/09 for assistant manager and above levels, enabling employees to get an opportunity to interact, and discuss, with superiors who are at a level higher than their own immediate supervisor. This proved to be more effective as the subject employees gained more confidence in its intent. This has furnished the management with a conduit, via first-hand feedback, to information, which has been helpful in improving operations and work relationships.

Whistleblower policy

The group has established a mechanism for employees to report to the Chairman through a communication link named 'Chairman Direct', concerns about unethical behaviour and any violation of group values. Employees reporting such incidents are guaranteed complete confidentiality and such complaints are investigated and addressed via a select committee under the direction of the Chairman.

While this is a key process within JKH to support and promote honest and ethical behaviour, this course of action is to be used where the systems and processes that are already in place do not, or are not, capable of addressing the issue at hand.

Compliance

The board is conscious of its responsibility to the shareholders, the government and the society in which it operates and is committed to upholding the highest standards of ethical behaviour in conducting its business. The board, through the Group Legal division, the Group Finance division and its other operating structures, strives to ensure that the company and all of its subsidiaries and associates comply with the laws and regulations of the countries they operate in.

The Board of Directors have also taken all reasonable steps in ensuring that all financial statements are prepared in accordance with the Sri Lanka Accounting Standards and the requirements of the Colombo Stock Exchange and other applicable authorities. The Sri Lanka Accounting Standards, as set by the Institute of Chartered Accountants of Sri Lanka, are those, which govern the preparation of the financial statements. The International Accounting Standard is used in the rare instance where a Sri Lanka Accounting Standard does not exist. The board is aware of the growing importance of the disclosure of critical accounting policies as a part of good governance and opine that there are no instances where the use of such concept would have a material impact on the company's and the group's financial performance.

The group has made every effort to comply with the requirements of the Companies Act of 2007 and the new CSE listing rules of 2009.

Corporate responsibility

The group recognises that it exists not only to maximise long term shareholder value but also to look after the rights and appropriate claims of many non-shareholder groups such as employees, consumers, clients, suppliers, lenders, environmentalists, host communities and governments. We recognise that they have a stake in the outcome of the group's actions and, accordingly, we will accord to them an increasing status when making corporate decisions. More importantly, we are becoming more aware of the impact of our business decisions on these stakeholder groups, the environment and broader communities. The John Keells Social Responsibility Foundation, the vehicle used by the group in developing and implementing the group's involvement in 'the community' has geared itself to ensure that the social programmes of the group are consistent with the principles of sustainable development.

This year, a group wide initiative was launched to document our management approach towards sustainability and policies regarding the same in a number of areas including group sustainability itself, health and safety, freedom of association, corruption, human rights, environment, and products and services, among others. JKH has also released its first Sustainability Report in line with GRI-G3 guidelines this year. With a starting level of C+ for the financial year under review, our target is to scale up to an A+ disclosure level report within three years.

SHAREHOLDER RELATIONS

Constructive use of AGM

Shareholders will have the opportunity at the forthcoming AGM, notice of which has been communicated to you to put questions to the board and to the Chairman-CEO of JKH and the chairmen of the various committees. The contents of this Annual Report will enable existing and prospective stakeholders to make better informed decisions in their dealings with the company.

In general, all steps are taken to facilitate the exercise of shareholder rights at AGMs, including the receipt of notice of the AGM and related documents within the specified period, voting for the election of new directors, new long term incentive schemes or any other issue of materiality that requires a shareholder resolution.

Dialogue with shareholders

The company has a well-developed investor relations programme to address the information needs of investment institutions and analysts regarding the company, its strategy, performance and competitive position. Given the wide geographic distribution of the company's current and potential shareholders, this programme includes regular roadshows to Asia Pacific, Europe and the USA conducted by the Deputy Chairman and the Head of Investor Relations. Matters discussed, and issues raised, at these meetings are brought to the attention of the GEC and/or the board, as appropriate, and addressed.

The company, through its Investor Relations division (IR), maintains an active dialogue with shareholders, potential investors, investment banks, stockbrokers and other interested parties. Any concerns raised by a shareholder are addressed promptly at the department level and are forwarded, when necessary, to the GEC for consideration and advice. Analysts reports are circulated among the GEC, as and when available, and its contents debated.

Major transactions

All material and price sensitive information about the company is promptly communicated to the Colombo Stock Exchange, where the shares of the company are listed, and released to the press and shareholders. The group also publishes quarterly, half-yearly and nine months ended interim reports. The interim and Annual Reports, contain a Chairman's message which explains, at a high level, the performance, background and rationale for all major transactions.

THE FUTURE

JKH is committed to conducting its affairs with integrity, efficiency and fairness to all stakeholders. Our approach to governance is of introspection, critical review, continued benchmarking and improvement. This, we believe, is not a choice as much as it is an essential, as the global investor witnesses a sea-change in the manner in which investments are structured and evaluated, companies grapple with higher costs of funding and limited access to debt and governments adopt protectionist policies in response to recessionary conditions. As a business based in a frontier market, we seek to remain a preferred choice for investment. Therefore, as in the past few years, our key areas of focus will continue as follows-

- Creating robust operating structures that are able to evolve to face the challenges of our strategic plans and continuous re-invention of our portfolio
- Maintaining sound internal controls and a robust framework of risk management and mitigation
- Developing the depth and reach of our external stakeholder relationships, improving transparency and efficiency in information flows and promoting partnership and mutual understanding between management and external stakeholders
- Staying abreast of international best practices and adopting those that add value to the group and its stakeholders, and
- Knowing and doing "what it takes" to create sustainable value for our stakeholders