

# CORPORATE GOVERNANCE

## Chairman's Statement



### *Compliance Statement*

*On behalf of the Aitken Spence PLC Board, I declare that the principles of good corporate governance are well applied across the Group and I am pleased to report that the Group has complied with all relevant provisions of the Code of Best Practice of Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.*

Dear Stakeholder,

I am pleased to have the opportunity once again to introduce the Group's corporate governance report. This section of the Annual Report sets out the rules, practices and processes that directs and controls your Company and the Group.

A strong corporate governance framework that is appropriate to the Group's size, nature, complexity and the risk profile enables Aitken Spence PLC to manage the diverse businesses under its portfolio to balance the needs of each company, stakeholders, regulators and the market. This framework supports the prudent management of the Group's activities to preserve its reputation and ensure the fair and equitable value creation for shareholders, investors, business partners and other stakeholders.

The Group's corporate governance framework is based on five key principles.

### Leadership

The Board is the ultimate authority responsible to shareholders and other stakeholders for the long-term sustainable delivery of the Group's strategy, activities

and financial performance; including the efficient use of resources and maintaining social, environmental and ethical standards. Further, the Board recognizes its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects and assess the principal risks affecting its operations, and to ensure that effective systems of risk management and internal control are in place to protect and enhance the shareholder value by ensuring sustainable, long term growth.

The pages that follow, offer comprehensive coverage regarding the quality and effectiveness of Aitken Spence PLC's leadership.

### Culture and Ethics

The Board stresses the importance of promoting a healthy workplace environment, which includes ethics and compliance through established policies based on the values of integrity, leadership and innovation. The Group prioritizes the importance of ensuring gender equality in its diverse sectors of work. Group's equal treatment policy ensures that all work places are free from all forms of

discrimination and objectionable special treatment,

The long term goal of the Group is to achieve an even gender balance in management positions. The correct tone is set from the top with the Directors leading by example to ensure that good standards of behaviour permeate throughout all levels of the Company.

Good Governance practices are enshrined in the Group's code of conduct and are cascaded down through policies and procedures that must be followed by Directors, managers and employees in their day-to-day, legal, administrative and operational activities. The Group has a formal anti-bribery and corruption policy that does not tolerate or condone corruption or bribery in any of the business dealings. This policy continues to be strictly implemented throughout the Group and is supported by employee training and regular compliance reviews.

## Risk Management and Internal Control

Risk Management and Internal Control are critical components of the corporate governance framework of the Group. The Board is responsible for determining the nature and the extent of principal risks the Group is willing to take in achieving strategic objectives. In individual SBUs of the Group the strategic and operational risk management unit of that company focuses on various risks that could affect its customer experience, operational agility, cost competitiveness and stakeholder confidence. This is done through a robust risk assessment methodology that analyses not only what each company does, but also how it is done, thereby ensuring sustainable economic viability of operations in line with the Group's overall strategic direction.

The internal control systems are designed to provide the Board with reasonable assurance as to the efficiency and the effectiveness of the Group's operations and to ensure the quality of internal and external reporting is maintained while complying with applicable laws and regulations. As part of its internal control mechanism, there is a whistle-blowing

policy in place to encourage employees to report in good faith any genuine suspicions of fraud, bribery or malpractice to identify any problems within the Group at an early stage. The policy has been designed to ensure that any employee who raises a genuine concern is protected.

## Accountability

In seeking to remain accountable to stakeholders, the Board strives to disclose the Group's performance (financial and non-financial) accurately, consistently and transparently, and in compliance with all applicable regulations as well as through the voluntary adoption of globally accepted best practices for transparent reporting.

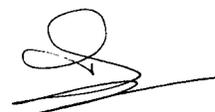
## Shareholder Communication

The Board recognizes and values the importance of maintaining healthy and open communications with our shareholders to ensure mutual understanding of the Group's strategy, objectives, governance and performance. The Annual General Meeting is considered as a crucial time for interaction with shareholders and on behalf of the Board, I urge all the shareholders to attend and

actively participate in the proceedings of this year's Annual General Meeting to be held on 29th of June 2018.

## Conclusion

On behalf of the Board, I must reiterate that good corporate governance remains an essential part of running our business effectively, in order to meet the expectations of our shareholders and other stakeholders. Accordingly, we will strive to evolve our governance policies and processes in line with changes to local and international regulations as well as globally accepted good governance practices that may become relevant from time to time.



**D.H.S. Jayawardena**  
Chairman

Colombo  
28th May 2018

# CORPORATE GOVERNANCE

## 1. GOVERNANCE STRUCTURE

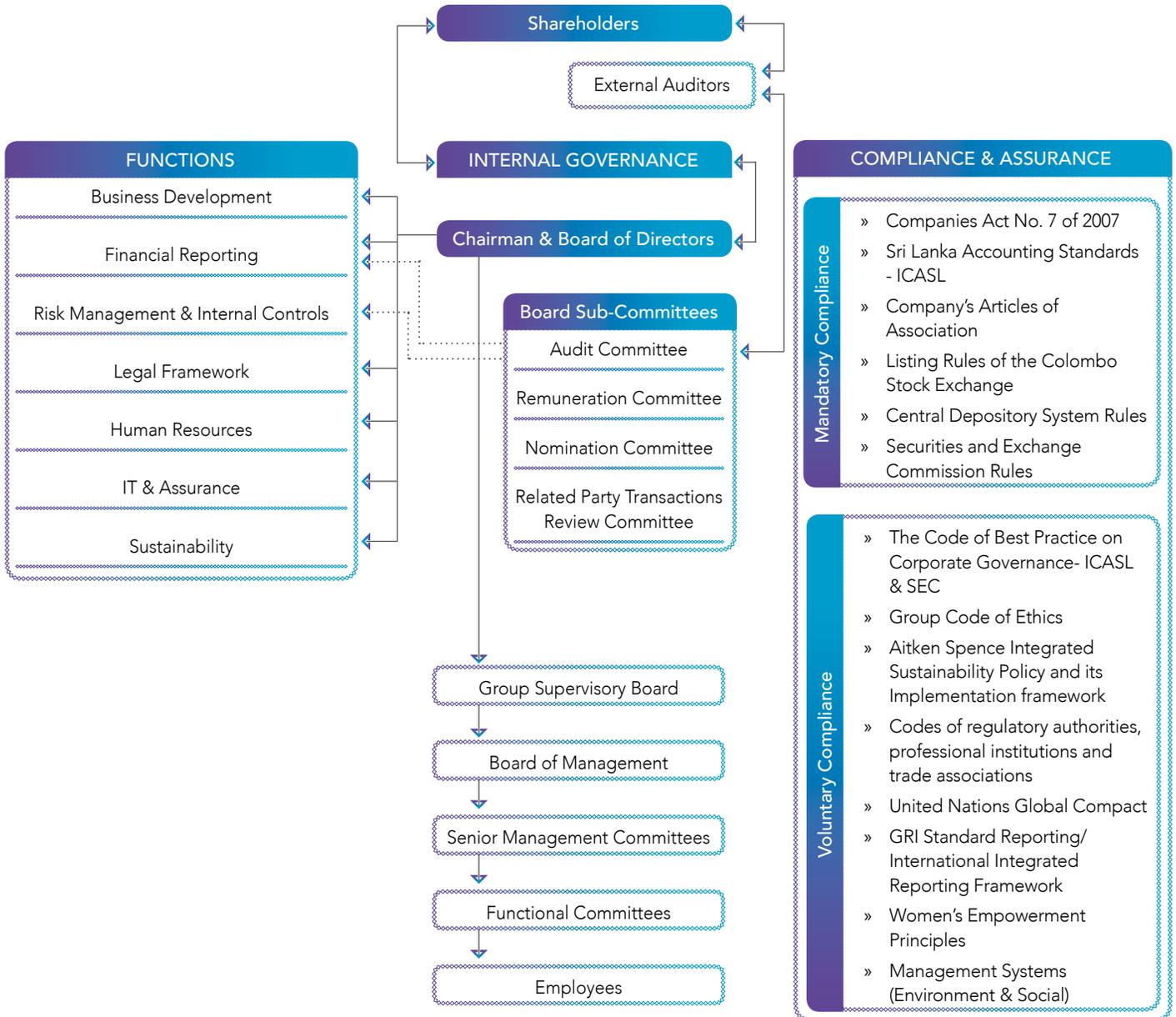
GRI 102 – 18

The Board of Aitken Spence PLC operates within a wider governance framework which ensures that decisions are taken at the right level of the business, by the people best placed to take them. The governance framework of Aitken Spence PLC provides clear directions on decision making which facilitates progress of the Company as well as the Aitken Spence Group.

Having delegated the day-to-day management to its executive Directors headed by the Deputy Chairman and Managing Director, the Board holds them accountable for their responsibilities. In order to discharge the Board's duties effectively, the Board operates through a number of Committees in line with the mandatory requirements of the Listing Rules of the Colombo Stock Exchange and the voluntary requirements of the Code of Best Practices on Corporate Governance jointly issued by the Institute of Chartered of

Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, each made up entirely of members of the Board. Each Committee so appointed, reports to the Board and is accountable for its responsibilities.

The governance framework at Aitken Spence PLC sets clear parameters of delegation and responsibilities from the Aitken Spence PLC Board down through the Group as illustrated below:



## 2. THE BOARD OF DIRECTORS

GRI 102 – 17, 19, 20, 21, 22, 27, 29, 30, 32

### 2.1 Board Composition and Independence

The Aitken Spence PLC Board comprises of the Chairman, Deputy Chairman and Managing Director and six other Directors, four of whom function in a Non-Executive capacity. With 50% of the Board comprising of Non-Executive Directors, their views carry significant weight in the Board's decision-making process. Further, three of the four Non-Executive Directors are construed as Independent, thus bringing the necessary balance to ensure that no individual or small group of individuals can dominate the Board's decision-making process. This enables the Board to act critically and independently in the best interest of the Group at all times.

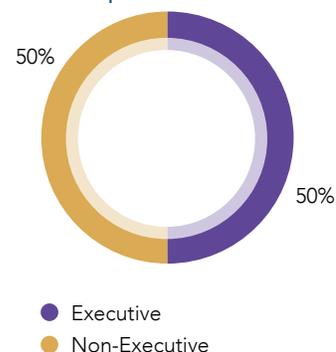
Each Director exercises independent judgment in all matters considered by the Board and acts free from undue influence and bias from other parties. Although two of our Board Members Deshamanya D.H.S.

Jayawardena and Ms. D.S.T. Jayawardena are related to each other, they act in the best interest of the Group in their spirit, intention, purpose and attitude in their decision making.

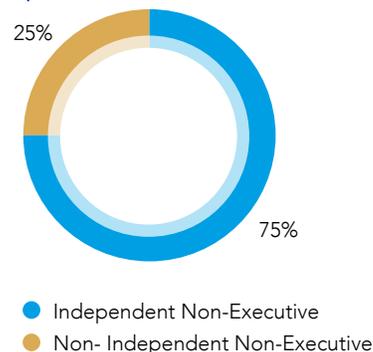
All Non-Executive Directors are expected to disclose any material business interest and submit an annual declaration confirming his/her independence/ non-independence in compliance with guidelines stated in the statutory regulations. Moreover, in the event a conflict of interest presents itself, the onus is on the respective Non-Executive Director to refrain from taking part in the decision-making process.

Disclosures made by Directors from time to time, regarding their interest in transactions including the related party transactions are formally noted and duly entered into the interest register. Note 43 of the Financial Statements of this Annual Report provides a list of companies in which the Directors had transactions with during the year under review.

Board Composition



Independence of the Board



#### Independence of Non-Executive Directors

**Mr. G.C. Wickremasinghe** - Mr. Wickremasinghe served as a Board Member of Aitken Spence for over nine years and was also an Executive Director on the Board prior to the assumption of duties as a Non-Executive Director. The Board having considered the above facts is of the view that the period of service and the Executive Directorship previously held by him do not compromise his independence and objectivity in discharging his functions as a Director and therefore determined that Mr. Wickremasinghe is 'independent' as per the Listing Rules.

**Mr. C.H. Gomez** - The Board is of the view that the period of service of Mr. C.H. Gomez as a Board Member, which exceeds nine years does not compromise his independence and objectivity in discharging his functions as a Director. Therefore, the Board determined that Mr. Gomez is 'independent' as per the Listing Rules.

**Mr. R.N. Asirwatham** - Appointed to the Board as an Independent Director, Mr. R.N. Asirwatham meets all the criteria of independence set out in Rule 7.10.4 of the Listing Rules of the Colombo Stock Exchange.

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## 2.2 Quality of the Board

As evident from the Board profiles on pages 34 to 37, the current Aitken Spence PLC Board comprises of a number of well-respected business leaders, two Chartered

Accountants and a former investment banker. These Directors represent an optimal mix of professionalism, knowledge and experience with a level of diversity. Their academic and/or entrepreneurial financial skills and business acumen

enable them to impart substantial value, knowledge and independent judgement towards decision-making and the execution of matters concerning finance and investment.



**Chairman Deshamanya D.H.S. Jayawardena** is one of Sri Lanka's most successful businessmen and heads many successful enterprises in very diverse fields of activities.



**Our Deputy Chairman and Managing Director Mr. J.M.S. Brito** has a LLB (University of London) and MBA (London City Business School) degrees and is a Fellow of the Institutes of Chartered Accountants of Sri Lanka as well as a fellow of the Institute of Chartered Accountants; England and Wales. Together with this multi-disciplined knowledge, he brings with him a wealth of 35 years international experience working with number of global organisations.



**Dr. R.M. Fernando** is the Chairman of the United Nations Global Compact Network, Ceylon and leads the sustainability strategy of the Group and is responsible for escalating Group-wide sustainability concerns to the Board of Management and the Aitken Spence PLC Board. His representation of the Group's sustainability team and participation in sustainability programmes is most likely the first instance of a Main Board Director of a company in Sri Lanka to be dedicated for sustainability. Dr. Fernando holds a PhD and a MBA from the University of Colombo and is also a Chartered Marketer and a Fellow of the Chartered Institute of Marketing, (CIM) UK. He has extensive experience in the plantation industry both in the public and private sectors and played a key role in the plantations privatisation programme.



**Ms. D.S.T. Jayawardena** leads a team of young professionals that is endeavouring to develop a strategic development plan for future growth of Aitken Spence PLC. She also oversees the Tourism Sector of the Group. Ms. Jayawardena was the youngest intern to work under the Former US President Bill Clinton in 2003.



**Mr. G. C. Wickremasinghe** having been appointed to the Board of Aitken Spence PLC, in April 1972 and subsequently as Chairman from 1996 to 1997, has been a Director of the Group continuously for a period of 44 years. He has wide and varied experience in many business sectors.



**Mr. C.H. Gomez** is a former Investment Banker with over 30 years of experience in the finance industry. He has worked for several major financial institutions and brings to the Group a wealth of experience in regard to international financial markets.



**Mr. N.J. de Silva Deva Aditya**, who was appointed to the Board of Aitken Spence PLC in September 2006, is an Aeronautical Engineer, Scientist and an Economist. He is a Fellow of the Royal Society for Arts, Manufacture and Commerce. His multifaceted expertise aids him to contribute immensely in the deliberations of the Board.



**Mr. R.N. Asirwatham** was the Senior Partner and Country Head of KPMG from 2001 to 2008. He was also a member of the Presidential Commission on Taxation. Mr. Asirwatham is a Fellow member of the Institute of Chartered Accountants of Sri Lanka. With his vast knowledge and experience he ably chairs the Audit Committee and the Related Party Transactions Review Committee of the Group.

### 2.3 The Role of the Board

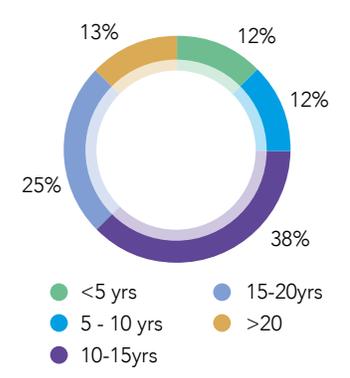
📄 GRI 102 – 16, 23, 26, 30, 34, 205 – 2

The Board is responsible for the overall governance conduct and implementation of sound business strategies across the Group. The Board exercises its ordinary and extraordinary administrative powers in carrying out its duties within the relevant laws/regulations of the country, international laws, regulatory authorities, professional institutes and trade associations to achieve the corporate objectives of Aitken Spence PLC and the Group.

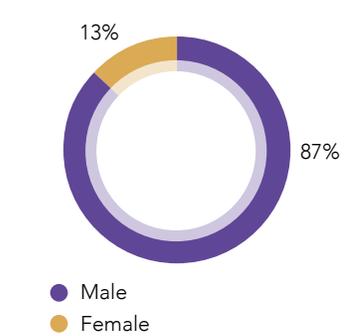
The Board collectively and Directors individually, fulfil their commitments by complying with the laws of the country and of the region, as applicable to the Aitken Spence Group. The Board is ultimately responsible for ensuring that all business activities are conducted with integrity and in compliance with the mandatory requirements of the following statutory regulations and voluntary endorsements:

- » Companies Act No. 7 of 2007,
- » Articles of Association,
- » Listing Rules of the Colombo Stock Exchange,
- » The Code of Best Practice of Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka,
- » The United Nations Global Compact, Global Reporting Initiative and the International Integrated Reporting Council Framework, Women's Empowerment Principles and the regulations,
- » The integrated sustainability policy of Aitken Spence PLC and SBU specific policies and procedures established for social and environmental governance,
- » By-laws of the Group Code of Ethics and the trade and industry related regulatory authorities and institutions.

Board Tenure as of 31st March 2018



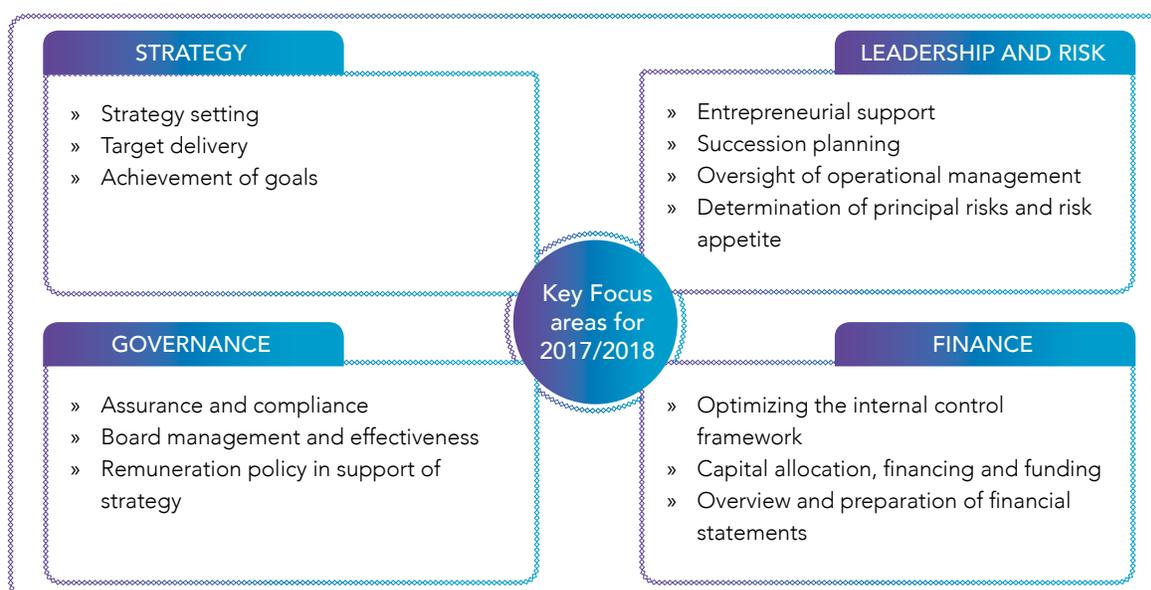
Gender Diversity



# CORPORATE GOVERNANCE

## The Board is specifically responsible for:

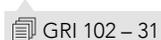
- » Providing oversight to ensure the proper execution of the Group's medium term and long-term strategies, including the approval of strategic plans, governance structures, risk appetite, internal control systems, covering policies and procedures, reporting lines that will provide the necessary decision-making framework to support the Group's strategic purpose,
- » Ensuring that those in leadership positions, including the Group Supervisory Board, the Board of Management and the Senior Management Committees have the capacity to execute the Group strategies,
- » Implementation of a suitable senior management succession strategy to facilitate the sustainability of the business,
- » Evaluating the performance and authorizing appointments to the Board Sub-committees,
- » Reviewing and approving recommendations made by Board Sub Committees,
- » Reviewing and approving of operational and financial budgets and monitoring actual performance of the individual Strategic Business Units against budgets and the approving of quarterly (unaudited) and audited financial statements,
- » Promoting greater transparency by subscribing to global best practices for the reporting of financial and non-financial information,
- » Establishing a stable risk governance framework by setting risk parameters and tolerance levels in line with the Group's strategic priorities. This also includes implementing suitable internal audit, IT systems, HR procedures etc. that would safeguard the Group against all major business risks,
- » Ensuring compliance of the Groups' statutory and regulatory obligations and safeguarding the Group's reputation by promoting high standards of honesty, integrity and ethical business practices at all levels of the business,
- » Promoting corporate citizenship to ensure long-term sustainability of the business,
- » Making appropriate recommendations for the appointment/removal of external auditors,
- » Subject to the provisions of the Companies Act No. 7 of 2007, evaluating and approving mergers/amalgamations, acquisitions and divestures that results in corporate re-structuring or re-engineering,
- » In addition, the Board of Directors, both individually and collectively, strive to comply with best practices on environmental, health, safety and ethical standards whilst ensuring that the interest of all stakeholder groups are considered when taking decisions.



## 2.4 Board Commitment

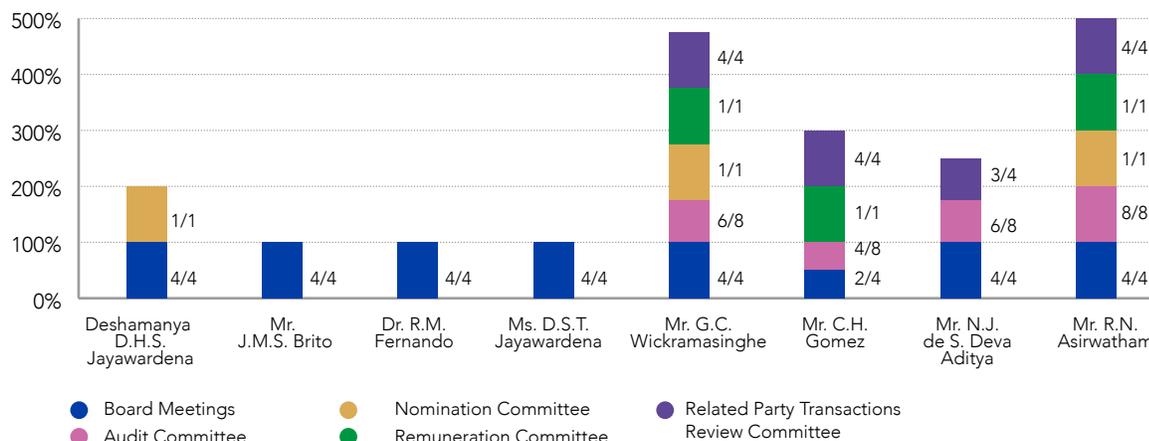
The Board is aware of other commitments of its Directors and is satisfied that these neither conflict nor impair their performance of duties as Directors of Aitken Spence PLC. Each member allocates sufficient time to fulfil his/her duties and each Director is expected to report to the Board of any intention of joining boards of any other company outside the Group and any changes of their commitments.

## 2.5 Board Meetings



The Board convened four times during this financial year, with all meetings presided over by the Chairman. An annual calendar of Board meetings is prepared and tabled at the last Board meeting of each year, enabling them to plan their commitments and to facilitate effective participation. In an instance of a Director's non-attendance at the meetings he/she is provided with briefing material for discussion with the Chairman or the Deputy Chairman and Managing Director on a later date. Attendance at the 2017/2018 Board Meetings are indicated below.

### Meeting Attendance



### Attendance at Board and Committee Meetings

	Board Meetings	Audit Committee	Nomination Committee	Remuneration Committee	Related Party Transactions Review Committee
Deshamanya D.H.S. Jayawardena	4/4		1/1		
Mr. J.M.S. Brito	4/4				
Dr. R.M. Fernando	4/4				
Ms. D.S.T. Jayawardena	4/4				
Mr. G.C. Wickremasinghe	4/4	6/8	1/1	1/1	4/4
Mr. C.H. Gomez	2/4	4/8		1/1	4/4
Mr. N.J de S. Deva Aditya/ Mr. A.L. Gooneratne (alternate Director to Mr. N.J. de S. Deva Aditya)	4/4	6/8			3/4
Mr. R.N. Asirwatham	4/4	8/8	1/1	1/1	4/4
Number of meetings held during the year under review	04	08	01	01	04

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The notices of Board meetings are circulated along with the agenda well ahead of the scheduled meeting. Board Papers are circulated to the Directors at least seven days prior to each meeting providing sufficient time for the Directors to review and call for any additional information or clarifications. Further, the Directors are provided with any additional information as and when required in order to effectively execute their duties and responsibilities.

General matters discussed at Board Meetings include, the Deputy Chairman and Managing Director's Report/ concerns, up-to-date financial accounts and respective operational updates and where applicable reports from the Nomination Committee, Audit Committee, Remuneration Committee and the Related Party Transactions Review Committee. Additionally, further discussions pertaining to both commercial and non-commercial strategy, technology strategy, talent and succession planning, partner relationships and associated markets are delved into an in-depth manner as and when necessary.

## 2.6 Conflict of Interests

 GRI 102 – 25

Minutes of the Board Meetings are accurately recorded and circulated amongst the Directors for confirmation at the next meeting. Where applicable, any conflicts/concerns that cannot be unanimously resolved are recorded in the Board Minutes. Instances where decisions are made by way of circular resolutions, all relevant information pertaining to the resolution are sent along with such resolution to enable the Directors to clearly understand the purpose for which a resolution is being circulated.

## Company Secretaries

Aitken Spence Corporate Finance (Private) Limited acts as Secretaries to the Board and is present at all Board Meetings. In addition, the Secretaries also:

- » Assist the Chairman in ensuring that the Board Members have full and timely access to all relevant information/ documentation whilst making sure that appropriate facilities are available for the proper conduct of meetings and effective decision-making,
- » Ensure correct Board procedures are followed, and that the applicable rules and regulations are reviewed regularly and complied with,
- » Advise the Board on corporate governance matters and acts as the interface between the management and regulatory authorities as and when necessary,
- » Manage the procedure whereby the Directors and the Board can, as needed, obtain independent professional advice at the Company's expense in discharging their duties.

## Our Chairman Deshamanya D.H.S. Jayawardena

Our Chairman, one of the most successful and proficient business leaders in the country, is responsible for preserving order at Board Meetings and the good corporate governance of our Group whilst facilitating the effective discharge of Board functions and business strategies. He is responsible for:

- » Ensuring that the Board adheres to procedures and the relevant statutes whilst being in complete control of the affairs of the Company,
- » Ensuring that the Group's obligations to various stakeholders and regulatory bodies are met,
- » Encouraging effective participation by both Executive and Non-Executive Directors on matters taken up for consideration,
- » Ensuring that all Directors are adequately briefed on issues arising at Board Meetings and that they effectively contribute with their respective capabilities for the best benefit of the Company,
- » Ensuring that shareholders are given adequate opportunity to make observations, express their views and seek clarifications at meetings of shareholders.

## Deputy Chairman and Managing Director Mr. J.M.S. Brito

A fellow member of the Institute of Chartered Accountants of Sri Lanka, London and Wales, with a LLB and a MBA, Mr. J.M.S. Brito is responsible for:

- » Day-to-day management of the Group's business operations, with the support of the Executive Directors, Board of Management, and the senior management team,
- » Revision and implementation of the Company's strategies and policies,
- » Maintaining a close working relationship with the Chairman, and being a sounding board for the Chairman as and when necessary,
- » Ensuring correct Board procedures are followed, and that the applicable rules and regulations are reviewed regularly and complied with,
- » Advising the Board on corporate governance matters and acts as the interface between the management and regulatory authorities as and when necessary, and
- » Managing the procedure whereby the Directors and the Board can, as needed, obtain independent professional advice at the Company's expense in discharging their/its duties.

disclosures are made to the Colombo Stock Exchange, along with a brief resumé of the Director. The same disclosure is published in the Colombo Stock Exchange website where it is accessible to shareholders.

In accordance with the Companies Act No. 7 of 2007 and the Articles of Association of Aitken Spence PLC, Directors who are retiring are eligible to submit themselves for re-election at the Annual General Meeting. The Board at the recommendation of the Nomination Committee evaluates the effective contribution made by these respective Directors to assess their eligibility for re-election.

The details of the Directors who are recommended for re-election and re-appointment at the forthcoming Annual General Meeting are disclosed in the Annual Report of the Directors on page 84 and in the Notice of meeting on page 392 of this Annual Report.

In the event that a Director recommended for re-election or re-appointment wishes to resign from his/her position as a director, he/she is expected to provide a written communication to the Board formally tabling his/her resignation along with reasons for such resignation. During the last financial year, Dr. M P Dissanayake offered himself for re-election at the Annual General Meeting held on 30th June 2017. However, by tendering a letter dated 1st June 2017 Dr. Dissanayake resigned from the Directorate of the Company with effect from 1st June 2017.

### 2.10 Board Evaluation

 GRI 102 – 28

The annual assessment of the performance of the Board, its Committees and the individual Directors are done on a self-appraisal basis within the terms of reference to its/their key responsibilities outlined on the Nomination Committee Report (see page 73). The self-appraisal

### 2.7 Division of Roles and Responsibilities between the Chairman and Managing Director

 GRI 102 – 23

Aitken Spence PLC recognises the importance of the separation and clear distinction between the functions and responsibilities of the Chairman and the Deputy Chairman and Managing Director. This division of duties ensures a balance of power and authority within the organisation so that no one person has unfettered powers of decision making and implementation.

The Board recognizes the need for continuous training and development, in shaping of a Board of skilled leaders. As such, subsequent periodic training in respect of the areas mentioned below is supplemented with one-on-one meetings with the management of each subsidiary, visit sites/factories/hotels and hold meetings with key investors, suppliers, customers, service providers and other key stakeholders where appropriate.

All Directors are further encouraged to attend seminars/training programmes relevant and useful to them in enhancing their business acumen and professionalism in carrying out their duties and have also been invited to participate in forums and/or seminars in their capacity as speakers, moderators or panellists in their respective areas of expertise.

### 2.8 Induction and Professional Development

 GRI 102 – 27

On appointment, Directors receive a Letter of Appointment outlining the terms of appointment, duties and responsibilities and expected time commitments. Additionally, both Executive and Non-Executive Directors are taken through a tailored formal induction programme as soon as practicable and coordinated by the Deputy Chairman and Managing Director of the Group.

### 2.9 Board Appointments

 GRI 102 – 24

New Directors are appointed through a formal process where, the Nomination Committee reviews nominations for new appointments to the Board. When a new Director is appointed, the necessary

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provides an avenue to highlight areas for improvement and remedial action as well as evaluation of the progress of such areas identified. It also ensures that any gaps pertaining to investor relations and Board administration and processes are rectified.

## 2.11 Directors' Remuneration

 GRI 102 – 36, 37

A formal transparent mechanism underpins the determination of remuneration for all Executive Directors. No Director is involved in determining his/her own remuneration. The Remuneration Committee consults the Chairman and the Deputy Chairman and Managing Director regarding the remuneration proposals including revision of salary packages (as and when necessary) of the Executive Directors and the Senior Management, with due consideration of internal and external socio-economic factors. A portion of each Director's remuneration is in the form of a 'performance bonus', which is based upon the achievement of both individual and corporate goals and targets.

Non-Executive Directors are remunerated in accordance with the Articles of Association of Aitken Spence PLC; the fees and reimbursable expenses are payable in consideration of the basis of contribution/ services performed at the Board and Committee Meetings, and the Group's year-end financial performance.

Directors' remuneration and fees in respect of the Company and the Group for the financial year ended 31st March 2018 are disclosed on page 286 of the Financial Statements, are subjected to shareholder approval.

## 2.12 Board Committees

 GRI 102 – 22

The Board has established sub-committees for the effective and efficient discharge and development of its duties and

### Voluntary Committees

**Nomination Committee:** The Nomination Committee was formed in 2009 as a voluntary Committee and is responsible for overseeing the performance of the Board, its Committees and Individual Directors and to evaluate their performance. The Committee strives to ensure to promote diversity and effectiveness to the boards of the Group Companies as well as to the higher levels of management and to ensure that fair and equal opportunities for promotion are given for all employees across the Group.

### Mandatory Committees

**Audit Committee:** Established in 2002, the Audit Committee's objective is to regularly review the adequacy of the internal controls and risk management process, ensure that the Group adheres to the statutory financial reporting regulations, assess the performance, effectiveness and the independence of the external auditors as well as the Group internal audit department.

**Remuneration Committee:** The Remuneration Committee was formed in 2002. The Committee's key objective is to determine and review the Group's Executive Remuneration Policy for the Executive Directors and the Senior Management and thereby attract the most suitable talent and retain them in order to enhance the Group's performance of the Strategic Business Units.

**Related Party Transactions Review Committee:** Formed in 2016, the Committee's key focus areas include the review of all proposed related party transactions, the formulation and regular review of the threshold of related party transactions and the review of the criteria of key management by the Listing Rules and the Code.

responsibilities and in compliance with the regulations of the Code. All such committees are provided with all essential resources to empower them to undertake their duties in an effective manner. Moreover, in accordance with the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance jointly issued by Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission, the Board has established four Committees to assist in the execution of its responsibilities, namely The Audit Committee, The Remuneration Committee, The Nomination Committee and The Related Party Transactions Review Committee.

## 3. SHAREHOLDER RELATIONS

 GRI 102 – 22, 37

Engaging with shareholders is a key part of how Aitken Spence PLC is managed. We engage with shareholders through open, meaningful dialogue that helps us understand their expectations of us. Shareholders are encouraged to be present, participate and vote at the Annual General Meeting. As the Company does not have non-voting ordinary shares, all shareholders are entitled to one vote per individual present or one vote per share in case of a poll.

The Annual Report is presented to shareholders not less than 15 working days prior to the Annual General Meeting and provides comprehensive information which enables the shareholders to be suitably

informed of the activities of the Group for the year under review. The shareholders are encouraged to use the Annual Report as a base to carry out adequate analysis and obtain independent advice regarding their investment in the Aitken Spence PLC. The Annual General Meeting gives shareholders an opportunity to comment, discuss and seek clarifications on any

relevant issues with the Chairman and the Board of Directors. In the interest of greater transparency and clarity, a separate resolution is raised on each issue that is proposed at the Annual General Meeting. Further, shareholders are free to informally meet with the Directors at the conclusion of such general meetings. Communication with shareholders is also facilitated through

the Company's website, press releases, social media platforms and announcements to the Colombo Stock Exchange. Meanwhile, the company secretarial division and/or communication teams act as the point of contact for clarifications, suggestions or complaints raised by shareholders.

## 4. COMPLIANCE TABLES

### 4.1 Mandatory Compliances

#### 4.1.1 Compliance requirements of the Companies Act No. 7 of 2007

Section/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
168 (1) (a) GRI 102 – 48, 49	Any change during the accounting period in the nature of business of the company or any of its subsidiaries and the classes of business in which the company has an interest	Compliant	Refer Group Directorate on pages 378 to 387 of this Annual Report.
168 (1) (b)	Financial statements of the Company and the Group for the accounting period completed and signed	Compliant	Refer Financial Statements on pages 253 to 358 of this Annual Report.
168 (1) (c)	Auditors report on the financial statements of the company and the Group	Compliant	Refer Independent Auditor's Statement on pages 249 to 252 of this Annual Report.
168 (1) (d)	Change of accounting policies during the accounting period	Compliant	Refer Section 3 to the Annual Report of the Directors on page 84 of this Annual Report.
168 (1) (e)	Particulars of entries in the interest register made during the accounting period	Compliant	Refer Section 8.5 on the Annual Report of the Directors of this Annual Report.
168 (1) (f) GRI 102 – 38, 39	Remuneration and other benefits paid to the directors during the accounting period	Compliant	Refer Note 9 to the Financial Statements on page 286 of this Annual Report.
168 (1) (g)	Total amount of donations made by the company during the accounting period	Compliant	Refer Section 4.2 of the Annual Report of the Directors on page 85 of this Annual Report.
168 (1) (h)	Directorate of the company and the Group as at the end of the accounting period along with the changes occurred during the accounting period	Compliant	Refer Group Directorate on pages 378 to 387 of this Annual Report.
168 (1) (i)	Amounts payable to the auditors as audit fees and fees payable for other related services provided by them	Compliant	Refer Note 9 of the Financial Statements on page 286 on this Annual Report.
168 (1) (j)	Relationship or interest of the Auditor has with the company or any of its subsidiaries	Compliant	Refer Section 16 on the Annual Report of the Directors of this Annual Report.
168 (1) (k)	The annual report of the board be signed on behalf of the board	Compliant	Refer pages 84 to 88 of the Annual Report of the Directors of this Annual Report.

# CORPORATE GOVERNANCE

## 4.1.2 Compliance requirements of the Listing Rules of the Colombo Stock Exchange - Corporate Governance

Section/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
<b>7.10</b>	<b>CORPORATE GOVERNANCE COMPLIANCE</b>		
<b>7.10.1</b>	<b>Non-Executive Director</b>		
a./b./c.	The Board of Directors shall include at least two Non-Executive Directors (NED) or equivalent to one third of the total number of Directors whichever is higher	Compliant	Four out of the eight Board Members are NEDs.
<b>7.10.2</b>	<b>Independent Directors</b>		
a.	Where the Board constitutes only two NEDs both shall be independent. In other instances, two or one third of NEDs shall be independent, whichever is higher	Compliant	Three out of the four NEDs are Independent.
b.	Annual submission of a signed and dated declaration of independence/non-independence by all NEDs	Compliant	Annually each NED declares his independence/non-independence in compliance with the relevant statutory regulations.
<b>7.10.3</b>	<b>Disclosures relating to Directors</b>		
a./b.	The Board shall make an annual determination of the independence/non-independence of the NEDs	Compliant	Independence of the NEDs has been determined by the Board based on the annual declaration and taking account all the other information and circumstances.  The criteria determining the independence of NEDs could be found in page 53 of this Annual Report.
c.	Publication of a brief resume of each director which includes information of nature of his/her expertise	Compliant	The names and profiles of each of the Directors are on pages 34 to 37 of this Annual Report.
d.	Submission of a brief resume to CSE upon appointment of a new director	Compliant	On an appointment of a Director a suitable disclosure is made to CSE.
<b>7.10.4</b>	<b>Criteria for defining Independence</b>		
a. to h.	Requirements for determining independence of a director	Compliant	Please refer information of NEDs on page 53.
<b>7.10.5</b>	<b>Remuneration Committee</b>		
<b>a.</b>	<b>Composition</b>		
a. 1	The committee shall comprise of two independent directors or non-executive directors a majority of whom shall be independent, whichever is higher	Compliant	All members of the Remuneration Committee of Aitken Spence PLC are Independent Non-Executive Directors.
a. 2	One non-executive director shall be appointed as chairman of the Committee by the board	Compliant	Mr. G.C. Wickremasinghe who is an Independent Non-Executive Director is the Chairman of the Remuneration Committee.
b.	Recommendation of remuneration payable to Executive Directors/CEO to the board	Compliant	The Remuneration Committee is responsible of reviewing policy of remuneration packages of the Deputy Chairman and Managing Director and other Executive Directors and recommend same to the Board.

Section/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
<b>c.</b>	<b>Disclosure in the Annual Report</b>		
c.1	The annual report should set out the names of the committee members and statement of the remuneration policy	Compliant	The Remuneration Committee Report set out in page 78 of this Annual Report contains the names of the members and a statement of the remuneration policy.
c.2	The annual report should contain the aggregate remuneration paid to executive and non-executive directors	Compliant	The aggregate remuneration paid to Executive and Non-Executive Directors is set out on page 286 of this Annual Report.
<b>7.10.6</b>	<b>Audit Committee</b>		
<b>a</b>	<b>Composition</b>		
a. 1	The committee shall comprise of a minimum of two independent non-executive directors or of non-executive directors a majority of whom shall be independent, whichever shall be higher. One non-executive director shall be appointed as chairman of the committee by the board	Compliant	All members of the Audit Committee of Aitken Spence PLC are Non-Executive Directors, three of whom are Independent.  Mr. R.N. Asirwatham who is an Independent Non-Executive Director is the Chairman of the Committee.
a. 2	CEO and CFO shall attend the committee meetings	Compliant	Mr. J.M.S. Brito, Deputy Chairman and Managing Director who is the CEO of Aitken Spence PLC and Ms. N. Sivapragasam, CFO attend the meetings by invitation.  Please refer the attendance of the Committee set out in pages 75 to 77 of this Annual Report.
a. 3	Chairman or one member of the committee should be a member of a recognized professional accounting body.	Compliant	The Chairman of the Committee, Mr. R.N. Asirwatham is a fellow member of the Institute of Chartered Accountants of Sri Lanka.
<b>b</b>	<b>Functions</b>		
b. (i)	Overseeing the preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards (SLAS)	Compliant	Refer Audit Committee Report on pages 75 to 77 of this Annual Report.
b. (ii)	Overseeing the compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements	Compliant	Refer Audit Committee Report on pages 75 to 77 of this Annual Report.
b. (iii)	Overseeing the processes to ensure the internal controls and risk management are adequate to meet the requirements of the SLAS	Compliant	Refer Audit Committee Report and the Directors Statement on Internal Control on pages 75 to 77 and 82 respectively on this Annual Report.
b. (iv)	Assessing the independence and performance of the external auditors	Compliant	Refer Audit Committee Report on pages 75 to 77 in this Annual Report.

# CORPORATE GOVERNANCE

Section/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
b. (v)	Recommend to the board pertaining to the appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors	Compliant	Refer Audit Committee Report on pages 75 to 77 in this Annual Report.
<b>c.</b>	<b>Disclosure in the Annual Report</b>		
c.1	The annual report should set out the names of the committee members	Compliant	The Committee Reports and the Annual Report of the Directors set out in the Annual Report contains the names of the members.
c.2	Determination of independence of the auditors and the basis for such determination	Compliant	Refer Audit Committee Report on pages 75 to 77 in this Annual Report.
c.3	A report of the audit committee containing the manner of compliance	Compliant	Refer Audit Committee Report on pages 75 to 77 in this Annual Report.

## 4.1.3. Listing Rules of the Colombo Stock Exchange – Contents of the Annual Report

Section/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
<b>7.6</b>	<b>Contents of the Annual Report</b>		
i)	Names of directors of the entity	Compliant	Refer Corporate Information on page 391 of this Annual Report.
ii)	Principal activities of the entity and its subsidiaries during the year under review	Compliant	Refer Group Directorate on pages 378 to 387 of this Annual Report.
iii)	20 largest holders of voting and non-voting shares and the percentage of shares	Compliant	Refer Investor Information on pages 238 to 244 of this Annual Report.
iv)	The Public Holding percentage	Compliant	Refer Investor Information on pages 238 to 244 of this Annual Report.
v)	Directors and CEO's holding in shares of the entity at the beginning and end of each year	Compliant	Refer Investor Information on pages 238 to 244 of this Annual Report.
vi)	Information pertaining to material foreseeable risk factors	Compliant	Refer Risk Management on pages 89 to 99 of this Annual Report.
vii)	Details of material issues pertaining to employees and industrial relations	Compliant	Refer Human Capital and on pages 122 to 134 of this Annual Report.
viii)	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Compliant	Refer Note 15 and 16 to the Financial Statements on pages 297 to 301 of this Annual Report.
ix)	Number of shares representing the stated capital	Compliant	Refer Investor Information on pages 238 to 244 of this Annual Report.
x)	Distribution schedule of the number of shareholders and the percentage of their total holding	Compliant	Refer Investor Information on pages 238 to 244 of this Annual Report.
xi)	Ratios and market price information	Compliant	Refer Investor Information on pages 238 to 244 of this Annual Report.

Section/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
xii)	Significant changes in the entity's or its subsidiaries fixed assets and the market value of land	Compliant	Refer Note 15 to the Financial Statements on pages 297 to 300 of this Annual Report.
xiii)	If during the year the entity has raised funds either through a public issue, rights issue and private placement	Compliant	The Company had no public issue, rights issue or private placement during the year under review.
xiv)	Employee share option/purchase schemes	Compliant	As at date, the Company has no share option/ purchase schemes made available to its Directors or employees.
xv)	Corporate Governance Disclosures	Compliant	Refer Corporate Governance on pages 50 to 72 of this Annual Report.
xvi)	Related Party Transactions	Compliant	Refer Note 43 to the Financial Statements.

## 4.2 Voluntary Compliances

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### 4.2.1 Compliance requirements of the Code of Best Practices on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
<b>THE COMPANY</b>			
<b>A. Directors</b>			
<b>A.1 The Board</b>			
A.1.1	Board Meetings and Provision of regular and structured information to the Board	Compliant	Refer section 2.5 of the Corporate Governance report on page 57 of this Annual Report.
A. 1.2	Role of the Board	Compliant	Refer section 2.5 of the Corporate Governance report on pages 57 to 58 of this Annual Report.
A.1.3/ A.1.8	Compliance with laws and access to independent professional advice and services and training of directors	Compliant	Refer section 2.8 of the Corporate Governance report on page 59 of this Annual Report.
A.1.4	Access to advice from the Company Secretary and duties of the Company Secretary and indemnifying the board, directors and key management personnel	Compliant	All Directors have access to obtain advice and the services of the Company Secretaries who are responsible for insuring Board procedures follow the best practices in respect of Corporate Governance by strictly complying with the necessary statutory and regulatory rules and regulations. The key responsibilities of the Company Secretaries are outlined in page 58 of this report.  Directors of Aitken Spence PLC and the Group are indemnified by the Company.
A.1.5	Independent Judgement	Compliant	Refer section 2.1 of the Corporate Governance report on page 53 of this Annual Report.
A.1.6	Dedication of sufficient time and effort	Compliant	Refer section 2.4 of the Corporate Governance report on page 57 of this Annual Report.

# CORPORATE GOVERNANCE

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
A.1.7	Call for Resolutions	Compliant	One third of the directors could request for a resolution to be presented to the Board for the best interest of the Company.
<b>A.2 Chairman and Chief Executive Officer (CEO)</b>			
A.2.1/ A.5.7	Decision to combine the posts of Chairman and CEO	Not Applicable	Deshamanya D.H.S. Jayawardena is the Chairman and Mr. J.M.S. Brito is the Deputy Chairman and Managing Director who is the CEO of Aitken Spence PLC.
<b>A.3 Chairman's Role</b>			
A.3.1	Effective conduct of Board proceedings by the Chairman	Compliant	Corporate Governance – Role of the Chairman on page 58 of this Annual Report.
<b>A.4 Financial Acumen</b>			
A.4	Ensuring the availability of sufficient financial acumen within the Board	Compliant	Refer section 2.1 of the Corporate Governance report on page 53 and the profiles of the Board of Directors on pages 36 to 37 of this Annual Report.
<b>A.5 Board Balance</b>			
A.5.1	Board Composition	Compliant	Refer section 2.1 of the Corporate Governance report on page 53 of this Annual report
A.5.2	Constitution of the Board of Directors only with three Non-Executive Directors (NEDs)	Compliant	The Board consist of four Non-Executive Directors, of whom three are Independent.
A.5.3/ A.5.4	Determination of independence, Annual Declaration of independence by the NEDs	Compliant	Refer section 2.1 of the Corporate Governance report on page 53 of this Annual report.
A.5.5	Board's determination on independence of NEDs	Compliant	Refer Independence of Non-Executive Directors of the Corporate Governance report on page 53 of this Annual Report.
A.5.6	Independence of Alternate Directors	Compliant	The only Alternate Director in the Board represents a Non-Independent Non-Executive Director.
A.5.8	Senior Independent Director	Not Applicable	The role of the Chairman and the Deputy Chairman and Managing Director are distinct.
A.5.9	Chairman's meetings with the NEDs	Compliant	Chairman meets with the NEDs as and when required.
A.5.10	Recording concerns	Compliant	Refer section 2.6 of the Corporate Governance report on page 58 of this Annual report.
<b>A.6 Supply of Information</b>			
A.6.1/ A.6.2	Management's obligation to provide appropriate and timely information	Compliant	Refer section 2.5 of the Corporate Governance report on page 57 of this Annual report.
<b>A.7 Appointments to the Board</b>			
A. 7.1	Presence of the Nomination Committee	Compliant	Refer section 2.9 of the Corporate Governance report on page 59 and the report of the Nomination Committee is set out on page 73 of this Annual Report
A.7.2	Annual Assessment of Directors	Compliant	The report of the Nomination Committee is set out on page 73 of this Annual Report

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
A.7.3	Disclosure of Appointment of a New Director	Compliant	Corporate Governance - Board Appointments on page 59
<b>A.8 Re Election</b>			
A.8.1/ A.8.2	Re-election of NEDs and re-election and re-appointment of Directors	Compliant	Refer section 2.9 of the Corporate Governance report on page 59 of this Annual report.
A.8.3	Resignation	Compliant	Refer section 2.9 of the Corporate Governance report on page 59 of this Annual report.
<b>A.9 Appraisal of Board Performance</b>			
A.9.1/ A.9.2	Review of Performance of the Board and its Committees and self-evaluation of Directors and of its Committees	Compliant	Refer section 2.10 of the Corporate Governance report on page 59 of this Annual report.
A.9.3	Presence of a process to review participation, contribution and engagement of Directors	Compliant	Refer section 2.10 of the Corporate Governance report on page 59 of this Annual report.
A.9.4	Disclosure of performance evaluation	Compliant	Refer section 2.10 of the Corporate Governance report on page 59 of this Annual report.
<b>A.10 Disclosure of information in respect of Directors</b>			
A.10.1	Profiles of the Board of Directors and other related information	Compliant	The names and profiles of the Directors are on pages 36 to 37 of this Annual Report
<b>A.11 Appraisal of the Chief Executive Officer</b>			
A.11.1/ A.11.2	Setting financial and non-financial targets	Compliant	The performance evaluation of the Deputy Chairman and Managing Director is carried out by the Chairman, in line with the financial and non-financial objectives set out in consultation with the Board at the commencement of every financial year.
<b>B. Directors' remuneration</b>			
<b>B.1 Remuneration Procedure</b>			
B.1.1	Remuneration Committee	Compliant	Refer section 2.11 of the Corporate Governance report on page 60 and the Report of the Remuneration Committee on page 78 of this Annual Report.
B.1.2	Composition of the Remuneration Committee	Compliant	Refer the Report of the Remuneration Committee on page 78 of this Annual Report
B.1.3	Disclosure of the names of the members of the Remuneration Committee	Compliant	Refer the Report of the Remuneration Committee on page 78 of this Annual Report
B.1.4/ B.1.5/ B.2.10	Remuneration of NEDs and Executive-Directors	Compliant	Refer the Report of the Remuneration Committee on page 78 of this Annual Report

# CORPORATE GOVERNANCE

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
<b>B.2 The Level and Make up of Remuneration</b>			
B.2.1- B.2.5	Standard of making the remuneration packages of Executive Directors	Compliant	Refer the Report of the Remuneration Committee on page 78 of this Annual Report
B.2.6	Executive share option	Compliant	As at date, the Company has no share option available to its Directors.
B.2.7	Performance based remuneration	Compliant	Refer the Report of the Remuneration Committee on page 78 of this Annual Report
B.2.8- B.2.9	Early termination in Directorate	Compliant	The Remuneration Committee determines the remuneration of Directors in the event of early termination.
<b>B.3 Disclosure of Remuneration</b>			
B.3.1	Disclosure of names of the members of the Remuneration Committee, statement of the remuneration policy and set out the aggregate remuneration paid to Directors	Compliant	Refer the Report of the Remuneration Committee on page 78 and Note 9 to the Financial Statements on page 286 of this Annual Report.
<b>C. Relations with shareholders</b>			
<b>C.1 Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings</b>			
C.1.1	Dispatch of Notice of AGM and related papers to shareholders	Compliant	Notices of meetings are circulated to the shareholders within the stipulated time in accordance with the Articles of Association.
C.1.2	Separate resolution for each issue	Compliant	A separate resolution on each issue is proposed at the Annual General Meeting of the Company.
C.1.3	Accurate recording and counting valid proxy appointments received for general meetings	Compliant	All proxy appointments received are duly recorded and counted in respect of each resolution, where a vote has been taken on a show of hands.
C.1.4	Availability of Chairmen of Board Committees at the Annual General Meeting	Compliant	The Chairmen of the Audit, Remuneration, Nomination and Related Party Transactions Review Committees are present at the AGMs.
C.1.5	Summary of Notice of General Meetings and procedures governing voting at General Meetings	Compliant	In the event the appropriate numbers of shareholders give their intimation in writing and request for a poll, the procedures involved in voting would be circulated. In the absence of such intimation all issues at the General Meeting will be passed by show of hands.
<b>C.2 Communication with Shareholders</b>			
C.2.1- C.2.3.	Effective communication with shareholders and disclosure of the method of communication with the shareholders	Compliant	The Company encourages effective communication with the shareholders and answers queries and concerns of shareholders through the Group Company Secretarial Division and Registrars. Any matters relating to the shareholders are effectively and efficiently dealt by the Group Company Secretarial Division and the Registrars of the Company.

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
C.2.4. / C.2.6	Contact person in relation to shareholder matters	Compliant	Group Company Secretarial Division and/or the Registrars could be contacted in relation to shareholders.
C.2.5 / C.2.7	Process to make Directors aware of the issues and concerns of Shareholders and disclosing same and the process responding to shareholder matters	Compliant	The Company Secretaries maintain a record of all correspondence received and would deliver such correspondence to the Board or individual Director as applicable.  The Board or individual Director, as applicable will generate an appropriate response to all validly received shareholder correspondence and will direct the Company Secretaries to send the response to the particular shareholder.
<div style="background-color: #e0e0e0; padding: 5px;"><b>C.3 Major and Material Transactions</b></div>			
C.3.1- C.3.2	Disclosure of Major related party transactions with a related party	Compliant	The Company ensures that in the event of a major related party transaction takes place, all required approvals are obtained and that the disclosure requirements of the Listing Rules of the Colombo Stock Exchange are strictly adhered to.
<div style="background-color: #e0e0e0; padding: 5px;"><b>D. Accountability and Audit</b></div>			
<div style="background-color: #e0e0e0; padding: 5px;"><b>D.1 Financial and Business Reporting</b></div>			
D.1.1/ D.1.2	Board responsibility in Financial Reporting	Compliant	The Board recognizes its responsibility to present a balanced and understandable assessment of the Group's financial position. Performance and prospects in accordance with the requirements of the Companies Act. The Financial Statements are prepared and presented in accordance with Sri Lanka Accounting Standards. Aitken Spence also continues to report its performance "In Accordance - Core" with the Global Reporting Initiative's G4 Reporting framework while following the guidelines of the International Integrated Reporting Council's Framework.
D.1.3	Declaration made by the Chief Executive Officer and Chief Financial Officer in maintaining accurate financial records and in compliant with the appropriate accountant standards	Compliant	The Statement of Financial Position on page 255 of this Annual Report contain a declaration by the Deputy Chairman and Managing Director and the Chief Financial Officer.
D.1.4/ D.1.5	Responsibility statement by the Directors and Auditors for the preparation and presentation of Financial Statements	Compliant	The Statement of the Directors and Auditors are on pages 248 and 249 respectively of this Annual Report.  The Statement on Internal Controls is on page 82 of this Annual Report.
D.1.6	Contents of the Management Discussion & Analysis	Compliant	The Management Discussion & Analysis of the Company and its subsidiaries under 4 sectors are on pages 100 to 237 of this Annual Report
D.1.7	Serious loss of capital	Compliant	In the unlikely event that the net assets of the Company fall below half of shareholders' funds, the shareholders of the Company would be notified and an Extraordinary General Meeting would be called to propose the way forward.
D.1.8	Disclosure of related party transactions	Compliant	Refer the Related Party Transactions Review Committee Report on pages 80 to 81

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# CORPORATE GOVERNANCE

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
D.1.4/ D.1.5	Responsibility statement by the Directors and Auditors for the preparation and presentation of Financial Statements	Compliant	The Statement of the Directors and Auditors are on pages 248 and 249 respectively of this Annual Report.  The Statement on Internal Controls is on page 82 of this Annual Report.
<b>D.2 Risk Management and Internal Control</b>			
D.2.1	Board's responsibility to monitor the company's risk management and internal control systems	Compliant	Refer the Board of Directors' Statement on Internal Control on page 82 of this Annual Report.
D.2.2	Confirmation by the Directors on carrying out a robust assessment of the principal risks faced by the company	Compliant	Refer the Board of Directors' Statement on Internal Control on page 82 of this Annual Report.
D.2.3	Presence of an internal audit function	Compliant	The Company is equipped with an independent Internal Audit Department
D.2.4	Review the process and effectiveness of risk management and internal control by the Audit Committee	Compliant	Refer Audit Committee Report on page 75 of this Annual Report.
D.2.5	The Statement of Internal Control	Compliant	The Statement on Internal Control is set out on page 82 of this Annual Report
<b>D.3 Audit Committee</b>			
D.3.1	Composition of the Committee	Compliant	Refer the report of the Audit Committee is set out on pages 75 to 77 of this Annual Report.
D.3.2	Duties of the Committee	Compliant	Refer the report of the Audit Committee is set out on pages 75 to 77 of this Annual Report.
D.3.3	Disclosures	Compliant	Refer the report of the Audit Committee is set out on pages 75 to 77 of this Annual Report.
<b>D.4 Related Party Transactions Review Committee</b>			
D.4.1/ D.4.2	Composition of the Committee	Compliant	Refer the report of the Related Party Transactions Review Committee on pages 80 to 81 of this Annual Report.
D.4.3	Duties of the Committee	Compliant	Refer the report of the Related Party Transactions Review Committee on pages 80 to 81 of this Annual Report.
<b>D.5 Code of Business Conduct &amp; Ethics</b>			
D.5.1	Disclosure of the presence of code of business conduct and ethics for Directors and Key Management Personnel and declaration of compliance	Compliant	The Group has put in place a code of ethics to provide employees with guidance on recognizing and handling areas of ethical ambiguity with guidance on how to report unethical conduct and to nurture a culture of openness and accountability.
D.5.2	Presence of a process to identify and report material and price sensitive information	Compliant	The Company ensures that material and price sensitive information is promptly identified and reported in accordance with the requirements of the Listing Rules of the Colombo Stock Exchange.

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
D.5.3	Policy, process for monitoring and disclosure of share transactions made by related parties	Compliant	Refer the report of the Related Party Transactions Review Committee on pages 80 to 81 of this Annual Report.
D.5.4	Chairman's affirmation that he is not aware of any violation of the provision of the code of business conduct and ethics	Compliant	Refer the Chairman's Introduction on Corporate Governance on page 50 of this Annual Report.
<b>D.6 Corporate Governance Disclosures</b>			
D.6.1	Disclosure of a Corporate Governance Report in the Company's Annual Report	Compliant	Refer the Corporate Governance on pages 50 to 72 of this Annual Report.
<b>Section 2 SHAREHOLDERS</b>			
<b>E. Institutional Investors</b>			
<b>E.1 Shareholder Voting</b>			
E.1.1	Regular and structured dialogue with shareholders	Compliant	Refer section 3 of the Corporate Governance report on page 60 of this Annual Report
<b>E.2 Evaluation of Governance Disclosures</b>			
E.2	Institutional investors should be encouraged to give due weight to all relevant factors when evaluating the Company's governance arrangements	Compliant	Refer section 3 of the Corporate Governance report on page 60 of this Annual Report
<b>F. Other Investors</b>			
<b>F.1 Investing/Divesting Decision</b>			
F.1	Encouraging shareholders to carry out adequate analysis and seek independent advice	Compliant	Refer section 3 of the Corporate Governance report on page 60 of this Annual Report
<b>F.2 Shareholder Voting</b>			
F.2	Encouraging shareholders to participate in general meetings	Compliant	Refer section 3 of the Corporate Governance report on page 60 of this Annual Report
<b>G. INTERNET OF THINGS AND CYBERSECURITY</b>			
G.1	Process to identify how the external IT devices could connect to the organization's network	Compliant	Refer Risk Management on pages 89 to 99 of this Annual Report.
G.2	Appointment of a Chief Information Security Officer (CISO)	Compliant	The functions of the CISO is carried out by Group IT Division.
G.3	Allocation of adequate time on the board meeting agenda for discussions on cyber risk management	Compliant	Refer Risk Management on pages 89 to 99 of this Annual Report.

# CORPORATE GOVERNANCE

Principle/ Rule	Requirement	Compliance Status	Nature of Compliance by Aitken Spence
G.4	Independent periodic review of the effectiveness on the cybersecurity risk management and the scope and the frequency of the review	Compliant	Refer Risk Management on pages 89 to 99 of this Annual Report
G.5	Cybersecurity process	Compliant	Refer Risk Management on pages 89 to 99 of this Annual Report
<b>H ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)</b>			
<b>H.1 ESG Reporting</b>			
H.1.1	Provision of information in relation to ESG factors, effects of ESG issues to the business and how risks and opportunities pertaining to ESG are recognized, managed, measured and reported	Compliant	Please refer the Capital Management Review on pages 110 to 173 of this Annual Report
H.1.2	Environmental Factors	Compliant	Please refer the Natural Capital on pages 147 to 158 of this Annual Report
H.1.3	Social Factors	Compliant	Please refer the Social & Relationship Capital on pages 135 to 146 of this Annual Report
H.1.4	Governance	Compliant	Please refer the Corporate Governance Report on pages 50 to 72 of this Annual Report
H.1.5	Board's role on ESG Factors	Compliant	ESG concerns of the Group is spearheaded by Dr. Rohan Fernando with the support and leadership of the Deputy Chairman and Managing Director.  The Group conducted a formal stakeholder engagement study through a third party under the guidance of Dr. R.M. Fernando, and results of this study were shared with the Board of Management with exclusive sessions conducted for specific SBUs as well. Similar briefings are routinely carried out on key sustainability priorities for the Group where all Managing Directors and the Executive Directors of the Main Board are informed about the Group's progress in social and environmental governance and impact control.



This section of the report contains information relevant to principle 1, 2, 3, 4, 5, and 10 of the United Global Compact on Human Rights, Labour Standards and Anti-Corruption



This section of the report contains information required for material General Disclosures of the GRI Standard for sustainability reporting. For details of the disclosures, please refer to the GRI Index.



To peruse a synopsis of the areas of expertise represented in the Board, and the qualities brought to the Board by the Directors, please follow the link [www.aitkenspence.com/annualreport/](http://www.aitkenspence.com/annualreport/)



A comprehensive shareholder feedback form is available at the end of the report to obtain feedback about this report so that the disclosures in future reports can be improved to suit the reader's needs better. Please let us know if the information in this section was useful to make decisions about Aitken Spence.

# NOMINATION COMMITTEE REPORT



*“The Nomination Committee endeavours to ensure that the Board of Aitken Spence PLC is composed of respected individuals who have the knowledge, experience and competence to guide and manage the Company efficiently, to achieve its goals. The Committee also constantly reviews the succession plan for Directors and Key Management Personnel.”*

**G.C. Wickremasinghe**  
Chairman, Nomination Committee

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## Composition of the Committee

### Nomination Committee Members

**Chairman** Mr. G.C. Wickremasinghe \*

**Members** Deshamanya D.H.S. Jayawardena †  
Mr. R.N. Asirwatham \*

\* Independent Non-Executive Director † Executive Director

The Committee is composed of two Independent Non-Executive Directors along with the Chairman of the Company who served as members throughout the year under review. The Chairman of the Committee is an Independent Non-Executive Director. The members of the Committee possess wide experience, financial and business acumen.

## Committee Meetings

One formal meeting was held during the year under review with the attendance of all its members. The Deputy Chairman and Managing Director attended the meeting by invitation.

## Responsibilities of The Committee

The principal responsibilities of the Committee are to:

- » Broaden, balance and diversify the effectiveness and composition of the Board of Aitken Spence PLC and its Group of companies,
- » Identify and recommend suitable candidates as Directors to the boards of Aitken Spence PLC and its Group of companies,
- » Review the structure, size and composition of the Boards of Group of Companies,
- » Oversee the performance of the Board, its Committees and Individual Directors and evaluate their performance,
- » Ensure the Boards consist of persons with a wealth of knowledge, experience, competency and entrepreneurial skills to advance the effectiveness of the Boards,
- » Review the Charter for the appointment and the re-appointment of Directors to the Boards of the Group companies and suggest amendments wherever necessary,
- » Recommend insurance covers for Directors of Aitken Spence PLC and its Group of companies.

## Key Functions Performed During The Year Under Review

The Committee reviews and makes recommendations that are fair, free from any bias and not influenced by personal or business relationships, thereby enabling the Company to make sound and measured judgments in order to attract the best talent to the Group. During the year under review the Committee performed the following functions:

- » Ensured the diversity and effectiveness of the Aitken Spence PLC Board and the Boards of its Group of companies as well as the Key Management Personnel (KMPs),

# NOMINATIONS COMMITTEE REPORT

- » Reviewed and recommended necessary appointments to the Boards of the Group of companies wherever necessary,
- » Evaluated and recommended suitable internal and external candidates to higher levels of management,
- » Reviewed the Group's policy and guidelines for appointment, re-appointment and succession planning,
- » Evaluated the eligibility of the Directors who have offered themselves for re-election/re-appointment to the Board and made necessary recommendations to the Board,
- » Recommended insurance covers for the Directors of Aitken Spence and its Group of companies.

The Committee further ensures that the combination of varied skills, knowledge and experience of the Company and the boards of the Group companies matches the required strategic demands of the Group.

## Re-Election and Re-Appointment of Directors

Deshamanya D.H.S. Jayawardena, Mr. J.M.S. Brito, Mr. G.C. Wickremasinghe, Mr. R.N. Asirwatham and Mr. N.J. De S Deva Aditya who retire from the Board at the conclusion of the forthcoming Annual General Meeting in terms of Section 210(2) of the Companies Act No.7 of 2007, have offered themselves for re-appointment.

Further, in terms of Article 83 of the Articles of Association, Ms. D.S.T. Jayawardena retires by rotation and has offered herself for re-election at the forthcoming Annual General Meeting.

Having given due consideration to each Director's performance, the Committee is of the opinion that the said Directors are eligible for re-appointment/re-election to continue as Directors of the Company.



**G.C. Wickremasinghe**  
*Chairman*  
*Nomination Committee*

Colombo  
28th May 2018

# AUDIT COMMITTEE REPORT



*“The Audit Committee, during the year under review evaluated the preparation, presentation and adequacy of disclosures of the financial statements and that the financial reporting requirements are adhered to. The Committee also evaluated the adequacy of internal controls and risk management framework.”*

**R. N. Asirwatham**  
Chairman, Audit Committee

## Composition of the Committee

### Audit Committee Members

<b>Chairman</b>	Mr. R.N. Asirwatham *
<b>Members</b>	Mr. G.C. Wickremasinghe * Mr. C.H. Gomez * Mr. N.J. de S Deva Aditya/ Mr. A. L. Gooneratne (Alternate Director to Mr. N. J. de S Deva Aditya) ^
<b>Secretary to the Committee</b>	Mr. H.K.A. Rathnaweera - Chief Internal Auditor, Aitken Spence PLC
<b>Attendance by invitation</b>	Mr. J.M.S. Brito - Deputy Chairman and Managing Director, Aitken Spence PLC Ms. D.S.T. Jayawardena - Executive Director, Aitken Spence PLC Ms. N. Sivapragasam - Chief Financial Officer, Aitken Spence PLC

\* Independent Non-Executive Director ^ Non-Executive Director

As evident above, the Audit Committee is composed of three Independent Non-Executive Directors and is chaired by an Independent Non-Executive Director who is a fellow of the Institute of Chartered Accountants of Sri Lanka. The profiles of the members are given on pages 36 to 37 of this report.

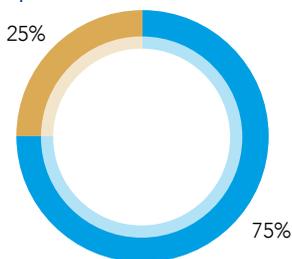
## Committee Meetings

The Audit Committee functioned throughout the financial year and held 8 formal meetings. The attendance at the Audit Committee meetings held during the year under review was as follows.

### Attendance by Invitation

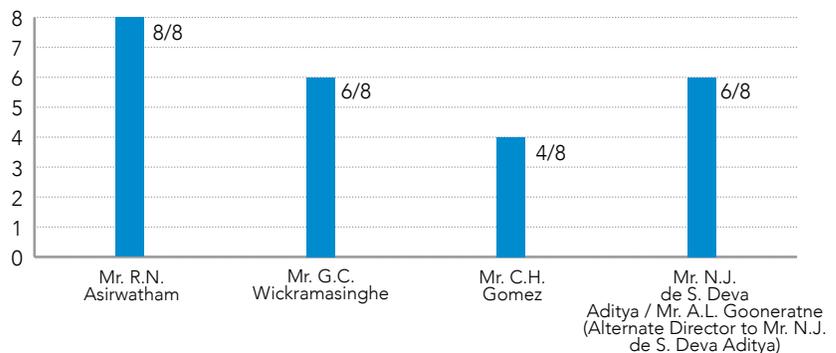
Mr. J.M.S. Brito, the Deputy Chairman and Managing Director, Ms. D.S.T. Jayawardena, Executive Director, Ms. N. Sivapragasam, Chief Financial Officer attends the meetings by invitation. Further, Senior Officers of the Group as well as the partner of KPMG responsible for the Group’s audit attended the meetings by invitation as and when required.

### Independence of the Committee



● Independent Non-Executive  
● Non-Independent Non-Executive

### Audit Committee Meeting Attendance



# AUDIT COMMITTEE REPORT

## Summary of Key Focus Areas during the Year Ended 31st March 2018

Responsibility	Activity
<p><b>Financial Reporting and Financial Control</b></p> <p><i>Monitored the integrity of the Group's financial statements, ensured compliance with financial reporting requirements and regulations and reviewed significant financial Reporting judgments contained in them</i></p>	<ul style="list-style-type: none"> <li>» Reviewed the Group's quarterly and annual Financial Statements, adequacy of disclosures, uniformity and appropriateness of the accounting policies adopted, major judgemental areas and ensured that they were in compliance with the Companies Act No. 7 of 2007, applicable Sri Lanka Accounting Standards (SLAS) and other applicable Accounting Standards of jurisdictions in which each Subsidiary operate in, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and requirements of other regulatory bodies as applicable for the Group, and suggested recommendations in line with those requirements.</li> <li>» Ensured that the Group adhered to and complied with all relevant laws, rules and regulations of the country and regulatory bodies, with regard to financial reporting, international laws and codes of ethics and standards of conduct required by regulatory authorities, professional bodies and trade associations and other best accounting practices and principles.</li> <li>» Reviewed the operational and other management information reports submitted by the Group's management to the Audit Committee and made recommendations for improvements.</li> </ul>
<p><b>Risk Management and Internal Control</b></p> <p><i>Reviewed the prevalence and adequacy of Group's internal control and risk management framework.</i></p>	<ul style="list-style-type: none"> <li>» Reviewed the adequacy and effectiveness of the Group's internal controls and risk management activities and highlighted the areas which requires attention, and suggested recommendations to the Board.</li> <li>» Presented and discussed the changes to the Inland Revenue Act and the Foreign Exchange Control Regulation and their implications on the Group companies and their reporting requirements.</li> <li>» Reviewed the processes to ensure the internal controls and risk management framework are adequate to meet the requirements of the SLAS.</li> </ul>
<p><b>External Audit</b></p> <p><i>Made recommendations to the Board on the appointment, reappointment and removal of the external auditors.</i></p>	<ul style="list-style-type: none"> <li>» Reviewed and approved the external audit plan presented by the external auditors.</li> <li>» Reviewed and monitored the progress of the external audit.</li> <li>» Discussed the management letter of the external auditors, and ensured that the management had taken appropriate actions to satisfactorily resolve highlighted issues.</li> <li>» Assessed the performance and effectiveness of the external auditors, their independence professional capabilities and made recommendations to the Board pertaining to the re-appointment of the external auditors.</li> <li>» Discussed the audited Financial Statements with external auditors and ensured that they were in conformity with the SLAS and other regulatory requirements.</li> <li>» Held discussions from time to time to assess the current developments in respect of reporting and compliance in view of the changes in the Auditing Standards, Inland Revenue Act etc.</li> <li>» Reviewed the fees &amp; out of pocket expenses proposed by external auditors and made recommendations to the Board, for their approval.</li> </ul>

Responsibility	Activity
<p><b>Internal Audit</b></p> <p><i>Reviewed the operation and effectiveness of the Group Internal Audit function.</i></p>	<ul style="list-style-type: none"> <li>» Reviewed the adequacy of the Internal Audit coverage of the Group.</li> <li>» Reviewed the financial and operational audit reports, IT security reports and risk reports submitted by Internal Audit Department and the management's response to the same.</li> <li>» Reviewed and evaluated the independence, effectiveness and competency of the Group's Internal Audit Department, their resource requirements, and made recommendations for any required changes.</li> <li>» Reviewed and approved the Annual Internal Audit Plan together with the Information Technology (IT) Security, Strategic Risk Plan and made appropriate recommendations for improvements.</li> <li>» The Audit Committee continued to ensure the co-ordination between Group internal audit and external auditors.</li> </ul>
<p><b>Reporting</b></p>	<ul style="list-style-type: none"> <li>» The Chairman of the Audit Committee reports to the Board at each meeting on the activities of the Committee.</li> <li>» The Annual Report incorporates the Audit Committee Report.</li> <li>» The Chairman of the Audit Committee attends the Annual General Meeting.</li> </ul>

**Re-Appointment of External Auditors**

The Audit Committee having evaluated the performance of the external auditors, decided to recommend to the Board the re-appointment of Messes KPMG, Chartered Accountants as the auditors of the Company for the current year, subject to approval of the shareholders at the forthcoming Annual General Meeting.



R.N. Asirwatham  
 Chairman  
 Audit Committee

Colombo  
 28th May 2018

# REMUNERATION COMMITTEE REPORT



*“The Remuneration Committee has been set up with the objective of examining and formulating a system to develop a policy on executive remuneration and determining the remuneration packages of individual Directors and the Senior Management of the Group. The Committee, endeavours to create remuneration packages that attract, develop and motivate future leaders of Aitken Spence”*

**G.C. Wickremasinghe**  
Chairman, Remuneration Committee

GRI 102 – 36

## Composition of the Committee

### Remuneration Committee Members

<b>Chairman</b>	Mr. G.C. Wickremasinghe
<b>Members</b>	Mr. R.N. Asirwatham Mr. C.H. Gomez
<b>Attendance by invitation</b>	Deshamanya D.H.S. Jayawardena - Chairman, Aitken Spence PLC Mr. J.M.S. Brito - Deputy Chairman and Managing Director, Aitken Spence PLC Ms. D.S.T. Jayawardena - Executive Director, Aitken Spence PLC

The Remuneration Committee is composed of three Independent Non-Executive Directors one of whom functions as the Chairman. The members of the Committee have wide experience and knowledge of finance, business and industry.

## Independence of the Committee

The members of the Committee are independent of management and are completely free from any business, personal or other relationships that may interfere with the exercise of their independent, unbiased judgement.

## Committee Meetings

The Committee formally met once during the year under review with the attendance of all its members. Deshamanya D.H.S. Jayawardena, Chairman, Aitken Spence PLC together with Mr. J.M.S. Brito, Deputy Chairman and Managing Director, Aitken Spence PLC and Ms. D.S.T. Jayawardena, Executive Director, Aitken Spence PLC attended the meeting by invitation.

## Key Objective

The Committee advises the Board on the policy to be followed on Executive remuneration packages for individual Directors and Senior Management.

## Responsibilities

The Committee is responsible to the Board for;

- » Determining the policy of the remuneration package of the Directors and the Board of Management,
- » Evaluating performance of the Managing Directors, Executive Directors as well as the individual and collective performance of Directors and Senior Management of the Strategic Business Units,
- » Deciding on overall individual packages, including compensation on termination of employment.

### The Scope of The Committee

- » Remuneration policy and its specific application to the CEO and Executive Directors and general application to the Key Management Personnel below the Main Board,
- » Performance evaluation of the CEO, management development and succession planning,
- » Reviewing, monitoring and evaluating performance of Key Management Personnel as well as their management development and succession planning.

### Key Functions of The Committee

The Remuneration Committee's decisions were made in keeping with the following policies:

- » The Company's Remuneration Policy is formulated to meet the current market trends and industrial norms, so that it would attract and retain the best talent and skills within the group,
- » The Committee reviews and ensures the implementation of the Group Remuneration Policy. The Company has a performance incentive scheme which is scientifically formulated, and the Committee approves the incentive payments on Sectoral and performance basis within the parameters of the group incentive scheme,
- » The Committee evaluates the achievements as well as unaccomplished targets, results of which are used in determining the performance based incentives.

The Group remuneration policy which was reviewed by the Committee remained unchanged during the year under review. Further, no Director was involved in deciding his/her remuneration.



G.C. Wickremasinghe  
Chairman  
Remuneration Committee

Colombo  
28th May 2018

# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT



*“The Related Party Transactions Review Committee was formed with the key objective of monitoring and reviewing related party transactions to ensure that the interest of all Shareholders is taken into account when entering in to any related party.”*

**R. N. Asirwatham**  
Chairman, Related Party Transactions Review Committee

## Composition of the Committee

### Related Party Transactions Review Committee Members

<b>Chairman</b>	Mr. R.N. Asirwatham *
<b>Members</b>	Mr. G.C. Wickremasinghe * Mr. C.H. Gomez * Mr. N.J. de S Deva Aditya/ Mr. A. L. Gooneratne (Alternate Director to Mr. N. J. de S Deva Aditya) ^

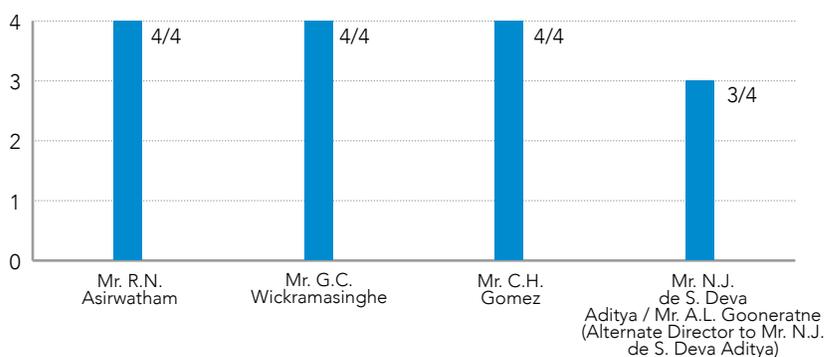
\* - Independent Non-Executive Director    ^ - Non-Executive Director

The Committee is composed of three Independent Non-Executive Directors and is chaired by an Independent Non-Executive who is a fellow member of the Institute of Chartered Accountants of Sri Lanka. Members of the Committee possess a wealth of knowledge and experience.

## Committee Meetings

The Committee held four formal meetings during the year under review. Deputy Chairman and Managing Director, Chief Financial Officer and an Executive Director of the Company attended the meetings by invitation.

### Related Party Transactions Review Committee Attendance



## Responsibilities of The Committee

The Committee’s key focus is to review all proposed Related Party Transactions prior to entering into or completion of the transaction according to the procedures laid down by Section 9 of the Listing Rules of the Colombo Stock Exchange and its responsibilities are as follows:

- » Evaluate any proposed related party transactions on a quarterly basis and recommend to the management and the Board, the appropriate course of action immediately in order to adhere to the compliance regulations of the Listing Rules and the Code of Best Practices on Related Party Transactions,
- » Review any post quarter confirmations on related party transactions,
- » Review the threshold for related party transactions which require either shareholders’ approval or immediate market disclosures, as the case may be,

- » Review the criteria of Key Management Personnel,
- » Regularly report to the Board on the Committee's activities.

### Key Management Personnel

The Board of Directors of the Company is construed as the Key Management Personnel (KMPs) of Aitken Spence. Further, Directors, Vice Presidents and Assistant Vice Presidents of Subsidiary Companies are considered as KMPs of such companies to establish greater transparency and governance.

Declarations are obtained from each KMP of the Company and its subsidiaries for the purpose of identifying related parties on a quarterly and annual basis to determine RPTs and to comply with the disclosure requirements, if any.

### Key Functions Performed During The Year Under Review

The Committee reviewed all proposed Related Party Transactions as well as post quarter confirmations and the activities of the Committee have been communicated to the Board quarterly through tabling the minutes of the meeting of the Committee at Board Meetings.



R.N. Asirwatham

*Chairman*

*Related Party Transactions Review Committee*

Colombo

28th May 2018

# THE BOARD OF DIRECTORS' STATEMENT ON INTERNAL CONTROLS

## Responsibility

The Board of Directors has the overall responsibility of maintaining a sound system of internal controls and for periodically reviewing its effectiveness and integrity, to ensure, that the Group's risks are within the acceptable risk profile. Accordingly, the Board has established an organization structure, which clearly defines lines of accountability and delegated authority.

The Board has instituted an ongoing process for identifying, evaluating and mitigating significant risks faced by the Group. This process entails enhancing the internal control system as and when there are changes to the business environment and regulatory guidelines.

The Board has delegated specific responsibilities to the following sub committees, which are chaired by independent Non-Executive Directors.

- » Audit Committee
- » Nomination Committee
- » Remuneration Committee
- » Related Party Transactions Review Committee

The Board is confident that the current internal controls adopted by the Company are adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external stakeholders and that they are in accordance with acceptable accounting principles and the applicable regulatory requirements.

## Internal Audit

The Group Internal Audit function provides independent assurance on the efficiency and effectiveness of the internal control systems and monitors compliance with policies and procedures, while highlighting significant findings in respect of any non-compliance. Audits are carried out on all business units and functions, and

the frequency of which is predetermined by the level of risk assessed. The Group's Internal Audit function is an independent function that reports directly to the Audit Committee, which also reviews and approves the annual audit plan.

The Audit Committee reviews all internal audit findings, management responses and the adequacy and effectiveness of the internal controls. The minutes of the Audit Committee meetings are tabled at the Board meeting on a periodic basis.

## Review Adequacy and Effectiveness

The adequacy and effectiveness of the internal controls of both financial and operations processes are regularly reviewed by the Board and the Audit Committee, and remedial steps are taken where necessary.

The Board and the Audit Committee concludes that an effective system of risk management and internal control is in place to safeguard the shareholders' investment and the Group's assets.

## Policies, Procedures and Budgets

Policies and procedures to ensure compliance with internal controls and the relevant laws and regulations are set out in operations manuals, which are updated from time to time.

Annual budgets are approved by the respective Boards and the subsidiaries' performance are assessed against the approved budgets and explanations are provided for significant variances periodically to the respective Boards.

## Whistle Blowing Policy

The Group encourages a whistle blowing policy which enables employees to bring irregularities in financial reporting, internal controls or other matters within the Group to the notice of the higher management.

Proper arrangements have been put in place to facilitate fair and independent investigation for such matters (if any). The prevalence and effectiveness of this policy is monitored by the Audit Committee time to time.

## The Group Code of Ethics

The Group Code of ethics which includes a strong set of corporate values and conduct, is circulated to Directors and all employees. The Board ensures that Directors and all employees strictly comply with the Group's code of ethics in exercising their duties, communications, role modelling and in any other circumstance, so as to uphold the Group's integrity and image. Strict disciplinary actions are initiated for any violation of the Group code of ethics.

## Going Concern

The statement of going concern is set out in the 'Annual Report of the Board of Directors' on page 85.

## Risk Management

An overview of the Group's risk management framework which include the Group's policy on cybersecurity, is set out on pages 98.

## Annual Report

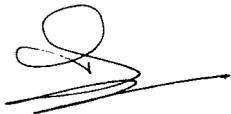
The Board of Directors is responsible for the preparation of the Annual Report and confirm that the quarterly reports, annual Financial Statements and the annual review of operations of the Company and its equity accounted investees that are incorporated in this Annual Report have been prepared and presented in a reliable manner, based on a balanced and comprehensive assessment of the financial performance of the entire Group.

## Confirmation

We confirm that all financial statements are prepared in accordance with the

requirements of the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act, and the Listing Rules of the Colombo Stock Exchange and any other regulatory bodies as applicable for the Group. We further confirm that the current internal control and risk management policy of the Company is adequate to identify, evaluate and manage significant risks for the Group.

We have duly complied with all the requirements prescribed by the regulatory authorities including the Colombo Stock Exchange and the Registrar of Companies. The consolidated financial statements for the year ended 31st March 2018 have been audited by Messrs. KPMG, Chartered Accountants.



**D.H.S. Jayawardena**  
*Chairman*



**J.M.S. Brito**  
*Deputy Chairman and Managing Director*



**R.N. Asirwatham**  
*Chairman*  
*Audit Committee*

Colombo  
28th May 2018

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

The details set out herein provide the pertinent information as required by the Companies Act No. 7 of 2007, Listing Rules of the Colombo Stock Exchange and the best accounting practices. The Board of Directors of Aitken Spence PLC has pleasure in presenting the annual report and the audited financial statements for the year ended 31st March 2018 which were approved on 28th of May 2018.

## 1. Principal Activities

Aitken Spence PLC is the holding Company that directly or indirectly owns investments in companies which form the Aitken Spence Group. In addition to the above, the Company provides management and related services to the Group companies. During the year there were no significant

changes in the principal activities of the Company and the Group.

The activities of the Group are categorised into four main sectors namely Tourism, Maritime & Logistics, Strategic Investments and Services. Companies within each sector and their principal activities are described on pages 378 to 387 of this annual report.

For the year ended 31st March	Group 2018 Rs. '000	Group 2017 Rs. '000
The net profit after providing for all expenses, known liabilities and depreciation on property plant and equipment	6,397,816	5,246,872
Provision for taxation including deferred tax	(1,248,284)	(1,201,407)
<b>Net profit after tax</b>	<b>5,149,532</b>	<b>4,045,465</b>
Other comprehensive income	1,453,305	1,309,258
<b>Total comprehensive income for the year</b>	<b>6,602,837</b>	<b>5,354,723</b>
Total comprehensive income attributable to the non-controlling interest	(1,127,239)	(1,456,534)
<b>Total comprehensive income attributable to equity shareholders</b>	<b>5,475,598</b>	<b>3,898,189</b>
Transactions directly recognised in the equity statement	49,704	50,112
Balance brought forward from the previous year	37,342,291	34,510,479
<b>Amount available for appropriations</b>	<b>42,867,593</b>	<b>38,458,780</b>
Final dividend for 2017/2018 (2016/2017)	(202,998)	(608,994)
Interim dividend (2016/2017)	-	(507,495)
<b>Total Reserves and earnings</b>	<b>42,664,595</b>	<b>37,342,291</b>
Stated Capital	2,135,140	2,135,140
<b>Balance Attributable to equity holders of the Company at the end of the period</b>	<b>44,799,735</b>	<b>39,477,431</b>

## 2. Review of Operations

A review of operational and financial performance, strategies and future outlook of the Company and the Group are described in greater detail in the Chairman's Message, Managing Director's Review, Management Discussion and Analysis and the Group Performance Review of this annual report. These reports together with the audited financial statements of the Company and the Group reflect the respective state of affairs of the Company and the Group.

## 3. Accounting policies and changes during the year

The Company and the Group prepared the financial statements in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs). The Board of Directors wish to confirm that there were no changes to the accounting policies used by the Company and the Group during the year. A detailed note of the accounting policies adopted in the preparation of the financial statements of the Company and the Group are given on pages 264 to 280.

## 4. Synopsis of the Income Statement of the Company and the Group

### 4.1. Group Revenue and Profits

Revenue generated by the Company during the year amounted to Rs.775.5 million (2016/17- Rs 652.3 million). The Group revenue was Rs. 52.7 billion (2016/17 - Rs. 45.9 billion). An analysis of Group revenue based on business and geographical segments is disclosed in note 6 to the financial statements. The profit after tax of the Company was Rs 1.9 billion (2016/17- Rs. 1.2 billion). The Group profit after tax was Rs. 5.1 billion (2016/17 Rs. 4.0 billion). The Group's profit attributable

to the equity shareholders of the parent company for the year was Rs. 3.6 billion (2016/17 - Rs. 2.9 billion). The segmental profits are disclosed in note 6.1.1 to the financial statements.

#### 4.2. Donations

During the year donations amounting to Rs. 460,650/- were made by the Company, while the donations made by the other Group entities during the year amounted to Rs. 1,625,090/-.

#### 4.3 Taxation

A detailed statement of the income tax rates applicable to the individual companies in the Group and a reconciliation of the accounting profits with the taxable profits are given in note 12 to the financial statements.

It is the policy of the Group to provide for deferred taxation on all known timing differences on the liability method. The deferred tax balances of the Group are given in notes 23 and 32 to the financial statements. The deferred tax of the Company and the Group are calculated based on the tax rates that are specified in the Inland Revenue Act No 24 of 2017.

#### 4.4 Dividends

The Directors recommended a first and final dividend payment of Rs. 2.00 per share for the year, the total dividend is paid out of dividends received by the Company where 10% withholding tax on dividends has been deducted. The Directors are satisfied that the Company would meet the solvency test requirement under Section 56 (2) of the Companies Act No. 7 of 2007 immediately after the payment of the first and final dividend.

## 5. Synopsis of the Statement of Financial Position of the Company and the Group

### 5.1 Stated Capital and Reserves

As at 31st March 2018 the Company had issued 405,996,045 ordinary shares and the stated capital of the Company was Rs. 2.1 billion. The Company's reserves as at 31st March 2018 were Rs. 12.9 billion (2016/17- Rs. 11.3 billion) whereas the total Group's reserves as at 31st March 2018 were Rs. 42.7 billion (2016/17-Rs. 37.3 billion). The movement in these reserves is shown in the statement of changes in equity – Company and Group on pages 256 and 258.

### 5.2. Property, Plant and Equipment, Investment Property, Intangible Assets, Biological Assets, and Leasehold Property

The details of property plant and equipment, investment property, intangible assets, biological assets, and leasehold property of the Company and Group where applicable are given in notes 15,16,17,18 and 19 to the financial statements on pages 297 to 304.

Information in respect of extent, location, valuation of land and building held by the Company and Group are detailed in notes 15.3. and 16.2 to the financial statements on pages 299 and 301.

### 5.3 Contingent Liabilities

The details of contingent liabilities are disclosed in note 41 to the financial statements.

## 6. Events occurring after the Reporting Date

No event of material significance that requires adjustments to the financial statements has arisen other than that disclosed in note 46 to the financial statements.

## 7. Going Concern

The Board of Directors is satisfied that the Company and the Group have adequate resources to continue their operations without any disruption in the foreseeable future. The Company's financial statements are prepared on a going concern basis.

## 8. Information on the Board of Directors and the Board Sub Committees

### 8.1 Board of Directors

The Board of Directors of the Company comprised of :

	Executive	Non-Executive	Independent
Deshamanya D.H.S. Jayawardena (Chairman)	✓		
Mr. J.M.S. Brito (Deputy Chairman and Managing Director)	✓		
Dr. R.M. Fernando	✓		
Dr. M.P. Dissanayake (Resigned w.e.f. 01.06.2017)	✓		
Ms. D.S.T. Jayawardena	✓		
Mr. G.C. Wickremasinghe		✓	✓
Mr. C.H. Gomez		✓	✓
Mr. N.J. de Silva Deva Aditya		✓	
Mr. R.N. Asirwatham		✓	✓

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

All of the above Directors held office during the entire year with the exception of Dr. M.P. Dissanayake who resigned w.e.f 01st June 2017. The brief profiles of the Directors are given in pages 36 to 37 of this annual report.

Mr. Asirwatham was appointed as an Independent Non-Executive Director and meets the criteria for independence as per the Listing Rules of the Colombo Stock Exchange.

The periods of service of Messrs Wickremasinghe and Gomez as Board Members exceed nine years. Additionally, Mr. Wickremasinghe was an Executive Director on the Board of the Company prior to the assumption of duties as a Non-Executive Director.

The Board is of the view that the periods of service of the said Directors and the Executive Directorships previously held by Mr. Wickremasinghe do not compromise their independence and objectivity in discharging their functions as Directors and, therefore, has determined that Messrs Wickremasinghe and Gomez are 'independent' as per the Listing Rules."

## 8.2 Board Sub Committees

The following Directors served as members of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Related Party Transactions Review Committee.

### **Audit Committee**

Mr. R.N. Asirwatham (Chairman)

Mr. G.C. Wickremasinghe

Mr. C.H. Gomez

Mr. N.J. de Silva Deva Aditya / Mr. A.L. Gooneratne (Alternate Director to Mr. N.J. de Silva Deva Aditya)

### **Remuneration Committee**

Mr. G.C. Wickremasinghe (Chairman)

Mr. R.N. Asirwatham

Mr. C. H. Gomez

### **Nomination Committee**

Mr. G.C. Wickremasinghe (Chairman)

Deshamanya D.H.S. Jayawardena

Mr. R.N. Asirwatham

### **Related Party Transactions Review Committee**

Mr. R.N. Asirwatham (Chairman)

Mr. G.C. Wickremasinghe

Mr. C.H. Gomez

Mr. N.J. de Silva Deva Aditya / Mr. A.L. Gooneratne (Alternate Director to Mr. N.J. de Silva Deva Aditya)

## 8.3 Re-appointment of Directors who are over 70 years of age and Re-election of Directors.

Upon the recommendation of the Nomination Committee of the Company and the Board, it is recommended that Deshamanya D. H. S. Jayawardena and Messrs G. C. Wickremasinghe, R. N. Asirwatham and J. M. S. Brito who are over 70 years of age and who vacate office in terms of Section 210(2)(b) of the Companies Act, be re-appointed as Directors in terms of Section 211 of the Companies Act, specially declaring that the age limit stipulated in Section 210 of the Companies Act shall not apply to the said Directors.

Mr. N. J. de Silva Deva Aditya, who attained the age of 70 years on 11th May 2018 and vacates office at the conclusion of the Annual General Meeting in terms of Section 210(2)(a) of the Companies Act, is also recommended by the Nomination Committee and the Board, for re-appointment as a Director under Section 211 of the Companies Act, specially

declaring that the age limit stipulated in Section 210 of the Companies Act shall not apply to the said Director.

Ms. D. S. T. Jayawardena who retires by rotation in terms of Article 83 of the Articles of Association of the Company offers herself for re-election.

## 8.4 Directors' Shareholding

The Directors' shareholdings are provided in the Investor Information section on page 244 of this annual report.

## 8.5 Interest Register

An Interest Register is maintained by the Company as per the Companies Act No. 7 of 2007. Any interest in transaction disclosed to the Board by a Director in accordance with Section 192 of the Companies Act No.7 of 2007 is duly recorded in the Interests Register.

## 8.6 Directors' Remuneration

The Directors' remuneration and fees in respect of the Company and the Group for the financial year ended 31st March 2018 are disclosed on page 286 of the financial statements.

## 8.7 Related Party Transactions

Related party transactions of the Group are disclosed in note 43 to the financial statements. These are recurrent and non-recurrent related party transactions, which required disclosures in the annual report in accordance with the Sri Lanka Accounting Standard No. 24 – Related Party Disclosures. However, there were no recurrent related party transactions which in aggregate value exceeded 10% of the consolidated revenue of the Group as per the audited financial statements as at 31st March 2017.

There were no non-recurrent related party transactions which in aggregate value

exceeding lower of 10% of the equity or 5% of the total assets of the Company as per the audited financial statements as at 31st March 2017, which required additional disclosures in the annual report under Listing Rule 9.3.2(a).

The Group companies and their key management personnel have disclosed on a quarterly basis, the proposed Related Party Transactions (if any) falling under the ambit of Rule 9 of the Listing Rules of the Colombo Stock Exchange. The disclosures so made were tabled at the quarterly meetings of the Related Party Transactions Review Committee, in compliance with the requirements of the above mentioned rule.

The Directors declare that the Company is in compliance with Rule 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2018.

### 8.8 Subsidiary Board of Directors

The names of Directors of the subsidiaries and joint venture companies who held office as at 31st March 2018 and Directors who ceased to hold office during the accounting period are indicated on pages 378 to 387 of this annual report.

## 9. Human Resources

The Human Resources strategies applied and practised by the Group have translated into the creation of a dynamic and competent human resource team with sound succession planning and a remarkably low attrition rate. The Group's employment strategies are reviewed periodically by the relevant committees and the Board of Directors. The Human Capital Report is set out on pages 122 to 134 of this annual report.

## 10. Governance

The Group has not engaged in any activity which contravenes national and international laws. The Group rigidly adheres to relevant national and international rules, regulations and codes of Professional Institutes and Associations, Industrial Associations, Chambers of Commerce and Regulatory Bodies. The Group complies with the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The Group applies very high standards to protect and nurture the environment in which it operates and ensures strict adherence to all environment laws and practices.

The Company has no restrictions with regard to shareholders carrying out appropriate analysis or obtaining independent advice regarding their investment in the Company and has made all endeavours to ensure the equitable treatment of shareholders. The Company's corporate governance practices are set out on pages 50 to 83 of this annual report.

## 11. Risk Management

The Directors have established and adhere to a comprehensive risk management framework at both Strategic Business Units and Group levels to ensure the achievements of their corporate objectives. The categories of risks faced by the Group are identified, the significance they pose are evaluated and mitigating strategies are adopted by the Group. The Board of Directors reviews the risk management process through the Audit Committee. The Risk Management Report of the Group is on pages 89 to 99 of this report.

## 12. Internal Controls

The Board of Directors ensures that the Group has an effective internal control system which ensures that the assets of the Company and the Group are safeguarded and appropriate systems are in place to minimise and detect fraud, errors and other irregularities. The system ensures that the Group adopts procedures which result in financial and operational effectiveness and efficiency.

Board of Directors' Statement on Internal Controls is on pages 82 to 83, the Statement of Directors' Responsibilities is on page 248 and the Audit Committee Report is set out on pages 75 and 77 of this report provide further information in respect of the above.

## 13. Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory financial obligations to the Government and to the employees have been either duly paid or adequately provided in the financial statements. A confirmation of same is included in the Statement of Directors' Responsibilities on page 248 of this annual report.

## 14. Corporate Sustainability

The Board of Directors guides and supports the Group's sustainability strategy. It welcomes the implementation of the structured and dynamic integrated sustainability framework. Awards and recognition received during the year are a testament to the Group's commitment as it continues to benchmark its practices against global standards and best practices in a myriad of aspects that affect or potentially affect delivery of growth. More details of the Group's sustainability efforts are included in the management discussion

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

and analysis of this report and at [www.aitkenspence.com/sustainability](http://www.aitkenspence.com/sustainability).

## 15. Shareholder Information

There were 4,787 shareholders as at 31st March 2018. The distribution schedule of the number of shareholders and their shareholdings are detailed on pages 242 to 244 of this annual report. The names of the twenty largest shareholders, together with their shareholdings as at 31st March 2018 are given on page 243 of this annual report. The percentage of the shares held by the public as at 31st March 2018 was 46.96%.

Information relating to earnings per share and the net assets per share for the Company and Group, the dividend per share and the market price per share are given on pages 238 to 244 of this annual report.

## 16. Auditors

The independent auditors' report on the financial statements is given on page 249 to 252 of the annual report. The retiring auditors Messrs KPMG Chartered Accountants have expressed their willingness to continue in office and a resolution to re-appoint them as auditors and to authorise the Board to determine their remuneration will be proposed at the Annual General Meeting.

The audit fees payable for the year to the Company auditors Messrs KPMG Chartered Accountants was Rs. 1.3 million.

In addition to the above Rs. 2.6 million was payable by the Company for permitted audit related and non audit related services. Messrs KPMG Chartered Accountants the auditors of the Company are also the auditors of certain subsidiaries, joint ventures and associate companies of the Group. The list of the subsidiaries, joint ventures and associate companies audited by them are included on pages 378 to 387 of this annual report.

The amount payable by the Group to Messrs KPMG Chartered Accountants as audit fees was Rs. 18.2 million while a further Rs. 5.7 million was payable for permitted audit and non audit related services. In addition to the above Rs. 6.9 million was payable to other auditors for carrying out audits of the subsidiaries conducted by them. The amount payable to such other auditors for permitted audit and non audit related services was Rs. 4.5 million. As far as the Directors are aware the auditors neither have any other relationship with the Company nor any of its subsidiaries, joint ventures and equity accounted investees that would have an impact on their independence.



**D.H.S. Jayawardena**  
*Chairman*



**J.M.S. Brito**  
*Deputy Chairman and Managing Director*



**Aitken Spence Corporate Finance (Private)  
Limited**  
*Secretaries*

Colombo  
28th May 2018

# RISK MANAGEMENT

*Exceptional risk management practice has always been a pivotal part of the Group's corporate governance. This has aided the Group to navigate through numerous socio economic and cultural environments for 150 years.*

*Our risk management framework and capabilities are constantly remodelled to suit the dynamism of the environment so as to ensure the long-term growth and sustainability of our businesses.*

## Risk Management Philosophy

Risk management is the strategic discipline of assessing, prioritizing, monitoring and controlling the impact of uncertainty on objectives.

Human capital and its ethical leadership are the cornerstones of the Group's risk management philosophy as these ensure entrepreneurial flair, sound corporate reputation and effective governance.

We accept that risk is inherent in Aitken Spence PLC's businesses and the markets in which it operates. The aim is to identify risks and then manage them so that they can be understood, reduced, mitigated, transferred or avoided. This demands a proactive approach to risk management and an effective Group-wide risk management framework.

## Risk Threshold and Risk Profiling Criteria

Aitken Spence PLC's risk threshold represents the amount of risk the Group is willing to undertake in pursuit of its strategic and business objectives. In line with the Group's value framework and

expectations of its stakeholders, Aitken Spence PLC will only take reasonable risks that:

- (a) Suit its strategy and capability
- (b) Can be properly understood and managed
- (c) Do not expose the Group to:
  - » Material financial loss which would impact the execution of the Group's strategies,
  - » Incidents affecting safety and health of our staff, contractors and the general public,
  - » Breach of external regulations leading to loss of critical operational approvals / business licenses and / or substantial fines,
  - » Incidents which results in tarnishing of Group's reputation and brand name,
  - » Activities leading to adverse impact on the community, and
  - » Severe environmental incidents.

Based on these principles, the Group has established a risk assessment matrix to help

prioritize and rank risk management efforts at the Group level. Business units too are required to adopt a similar risk matrix structure in order to carry out their own risk profiling and determine consequence and likelihood of identified risks with reference to their own materiality and circumstances as well as establishing appropriate business specific risk mitigation strategies.

The following are some of the qualitative and quantitative factors considered by the Board in evaluating the risk threshold:

- » Risk and return of the current investment portfolio,
- » Availability of cash resources and other liquid assets,
- » Available funding opportunities,
- » Risk return profile of prospective opportunities,
- » Financial ratios relevant to measuring performance,
- » International and local economic cycles and trends, and
- » Foreign currency rates and trends.

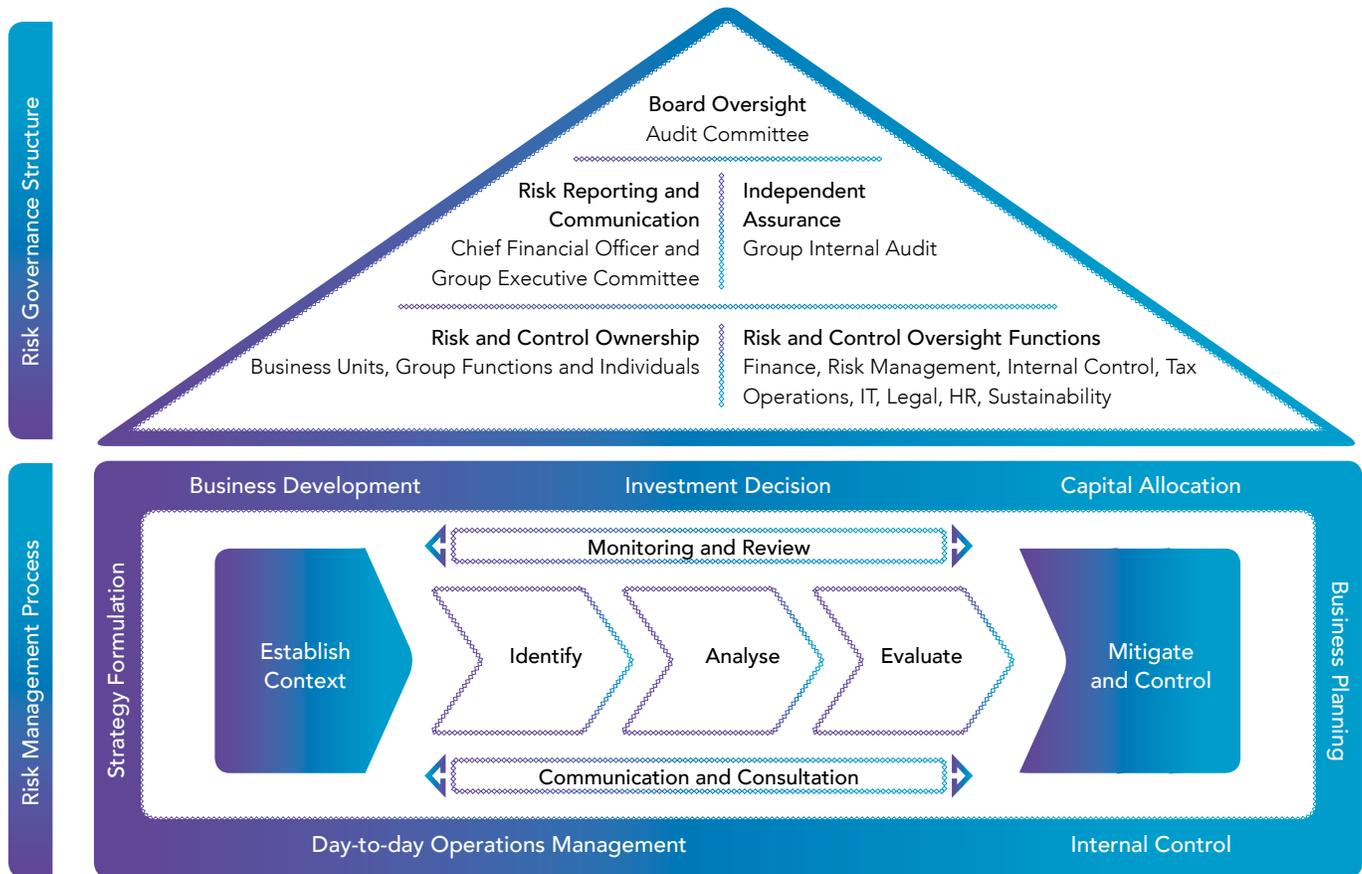
# RISK MANAGEMENT

The Group uses the three lines of defence model:

First line of defence	Business unit management	The heads of business units are primarily responsible for risk management, with the due process of assessing, evaluating and measuring risk integrated into the day-to-day activities of their respective businesses. This process includes implementing the Group's risk management framework, identifying issues and taking remedial action where required. The management of each business unit is also responsible for reporting and escalating risk concerns to the board.
Second line of defence	Group strategic risk unit is independent of business management.	The strategic risk unit is primarily accountable for setting the Group's risk management framework and policy, providing oversight and independent reporting to the Audit Committee.
Third line of defence	Internal audit function	Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures, and reports to the Board through the Group Audit Committee.

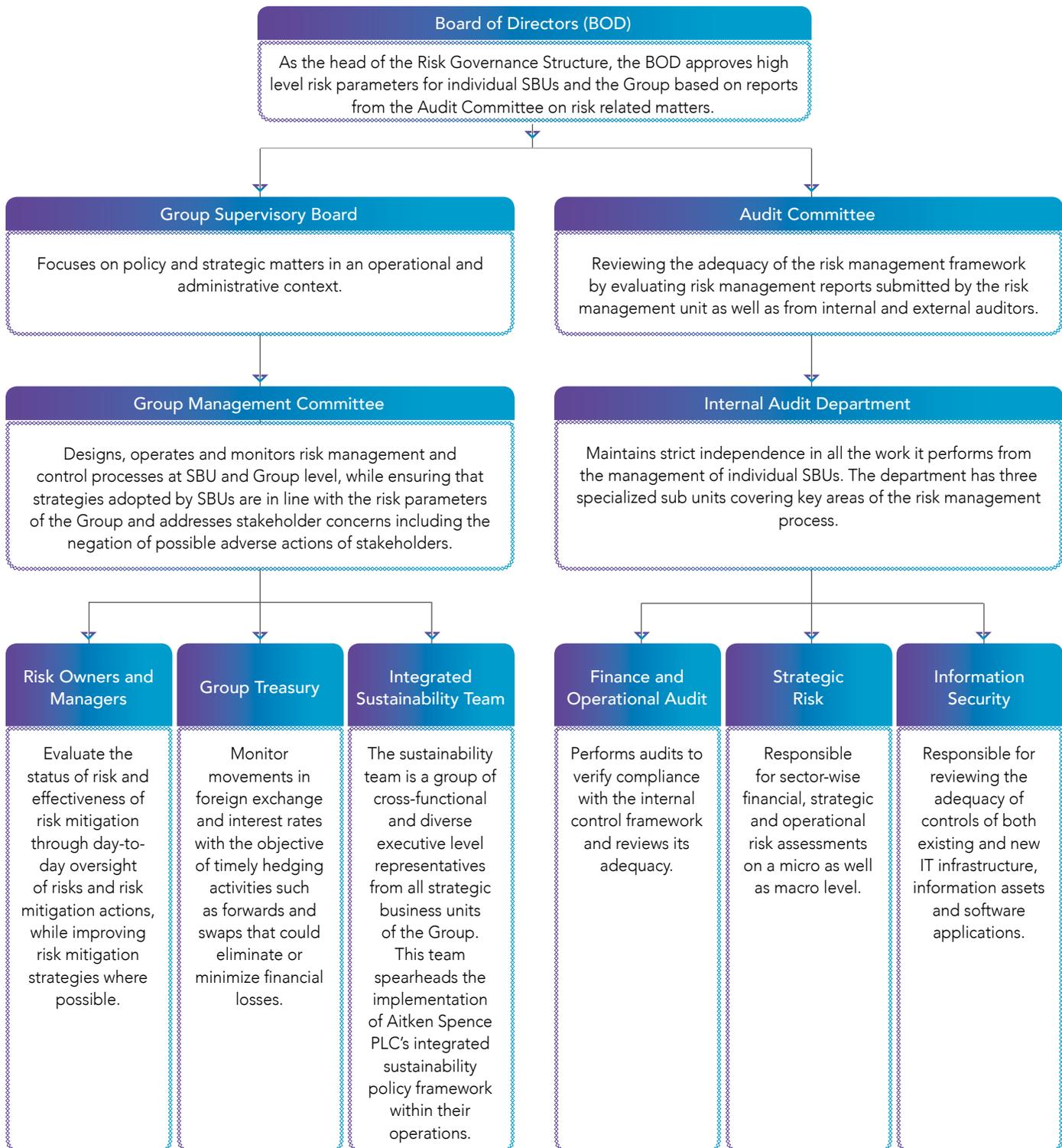
## Risk Management Framework

The Group risk management framework comprises two key elements: risk governance structure and risk management process.



## Risk Governance Structure

- » Facilitates risk identification and escalation whilst providing assurance to the Board.
- » Assigns clear roles and responsibilities and facilitates implementation with guidelines and tools.
- » Consists of multiple layers of roles and responsibilities.



# RISK MANAGEMENT

## Risk Management Process

Risk Management is a continuous and interactive process with stakeholder communication and consultation as well as subject to regular monitoring and review. The process is integrated into business and decision-making processes and involves:

- » Establishing the context;
- » Identifying risks, assessing their potential consequences and likelihood;
- » Evaluating the risk level, control gaps and priorities; and
- » Developing control and mitigation plans.

## Key risk issues analysed during the year under review

### Macroeconomic Risk Issues

- » Geopolitical uncertainty in national and international markets that may limit our growth opportunities.
- » Anticipated changes in global trade policies may limit our ability to operate effectively and efficiently in international markets.
- » Anticipated increases in labour costs may affect our opportunity to meet profitability targets.
- » The climate change phenomenon impacts, in ways that affect the planning and day to day operations of the Group's businesses. The manifestations of climate change include higher temperatures, altered

rainfall patterns, and more frequent or intense extreme events such as heatwaves, drought, and storms.

### Strategic Risk Issues

- » Rapid speed of disruptive innovations and/or new technologies within the industry may outpace the Group's ability to compete and/or manage the risk appropriately, without making significant changes to its business model.
- » Regulatory changes and regulatory scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered.
- » Entry of new competitors into the industry and marketplace may threaten our market share.
- » Sustaining customer loyalty and retaining customers may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base.

### Operational Risk Issues

- » Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services.
- » The Group's succession challenges and ability to attract and retain top talent may limit its ability to achieve operational targets.

**Human resources and talent management risk**

The Group continues to experience high staff turnover, in several segments, such as travels and hotels. As a result, attracting and retaining suitably skilled and experienced staff is a constant challenge.

Risk Rating	
2017/18	2016/17
<b>H</b>	<b>H</b>

**Mitigation Strategies**

- » Effective functioning of the Remuneration and Nomination Committees.
- » The Group ensures that strong ethical leadership is practiced at all levels of management.
- » Strengthen the Group’s human capital by attending job fairs and working with universities and professional institutes to build a pool of potential candidates to hire when vacancies arise, while collaborating with international educational bodies through Aitken Spence school of management to provide employees with more focused and meaningful training to perform their jobs and anticipated roles.
- » Succession planning for all departments and business units is in place.
- » Facilitating an open-door policy where any employee can speak to the Chief Human Resource Officer of the Group and senior management regarding any concern.
- » Providing job rotation opportunities and overseas assignments in order to develop managerial capacity of employees.
- » Maintaining an internal transfer policy to facilitate greater internal mobility.
- » Revising existing HR policies (remuneration, benefits, communication etc.) and where applicable introducing new policies to accommodate the changing market environment and employee needs.
- » Promoting greater employee engagement through activities organized by the Group’s sports club.
- » Educational sponsorship to encourage employees to pursue continuous professional development.

**Competitor risk**

Escalating pressure from competition may hinder the Group from achieving its predicted margins and market share. Most markets in which the Group operates are characterized by strong competition and are often price-driven.

Risk Rating	
2017/18	2016/17
<b>H</b>	<b>H</b>

**Mitigation Strategies**

- » With a view to attract export related businesses, the printing and packaging segment has differentiated itself from its competition through sustainability initiatives.
- » Leverage on the long-standing reputation of the “Aitken Spence” brand as a tool to create sustainable competitive advantage.
- » Regular and systematic competitor analysis is performed by each sector, with adequate measures are being taken to ensure the Group’s competitiveness is sustained.
- » Under the supervision of the strategic risk division, all sectors are expected to comply with the integrated sustainability policy in order to maintain the long-term competitiveness of the Group.
- » Strategic portfolio diversification to obtain a competitive advantage and stay ahead of its competitors.
- » Ongoing efforts to strengthen the Group’s intellectual capital through investments in research and development and leadership in global best practices.

# RISK MANAGEMENT

Operations Risk	Risk Rating	
	2017/18	2016/17
Aitken Spence PLC's operations are exposed to various industrial and operational risks relating to health, safety, security and environment (HSSE) incidents, emissions compliance, plant performance, human capital, data privacy, cyber-attacks, IT controls and extreme weather events caused by climate change.	M	M
<b>Mitigation Strategies</b>		
<ul style="list-style-type: none"> <li>» Logistics segment carries out regular servicing of container handlers and continues yard rehabilitations to avoid hindrance caused to yard operations due to breakdowns, repairs and structural damages to container handlers.</li> <li>» Apparel manufacturing and printing and packaging segments enter into collective agreements with the workforce to avoid disruption caused by unionised labour strikes.</li> <li>» Planning and implementing operations and system reinforcements where necessary in order to maintain high operational and emissions performance.</li> <li>» Enhancing operational efficiency and reliability by strengthening the manufactured capital.</li> <li>» Business continuity planning, including emergency response and crisis management plans with regular drills.</li> <li>» Implementing the Group health, safety, security and environment management system to enhance the awareness of both employees and contractors.</li> <li>» Implementing the project management governance system to facilitate a consistently safe, timely and cost-effective delivery of high quality projects.</li> <li>» Raising staff awareness through cyber security programmes and applying different technologies to mitigate cyber security risks, in particular to prevent cyber fraud and disruptions to operations.</li> </ul>		

Regulatory Risk	Risk Rating	
	2017/18	2016/17
The country's legal framework has undergone considerable changes in the recent past, primarily due to the introduction of the new Inland Revenue and Foreign Exchange Acts.	H	M
<b>Mitigation Strategies</b>		
<ul style="list-style-type: none"> <li>» Constant engagement with regulatory authorities together with trade chambers and associations, so as to be up to date with new laws and regulations and influence those which adversely impact the economy and the business environment.</li> <li>» Appropriate control structures are in place, supported by skilled and experienced legal and corporate tax specialists.</li> <li>» Implementing comprehensive stakeholder engagement plans to facilitate calculated and informed discussion on regulatory matters.</li> <li>» Mobilizing internal resources to ensure timely response to regulatory changes and maintaining regulatory compliance.</li> <li>» The strategic risk unit of the Group closely monitors the domestic and global economic environments, for adverse changes in the regulatory framework, which are promptly intimated to the management for appropriate action.</li> </ul>		

Legal risk	Risk Rating	
	2017/18	2016/17
Given the Group's global presence and diverse business portfolio, Aitken Spence PLC is exposed to numerous legal risks, particularly in the areas of staff, competition and antitrust law, anti-corruption, tax assessments and environmental matters.	M	L

- Mitigation Strategies**
- » A dedicated centralized in-house legal division assists and advises SBUs on legal matters and provides oversight to ensure all statutory and legal requirements are met in all transactions
  - » Periodic reviews are performed by the internal audit division in collaboration with the legal division to ensure that all business units conform to legal, regulatory and statutory requirements applicable to their respective businesses.
  - » The Group obtains the assistance of external professional counsel as and when required.

Financial Risk	Risk Rating	
	2017/18	2016/17
The Group's investments and operations, which are long term in nature, are exposed to various financial risks including liquidity, counterparty, interest rate and foreign currency risks.	M	M

- Mitigation Strategies**
- » A conservative business approach with long-term investment criteria focused on growth, sustainability and liquidity.
  - » Corporate actions aligned with the long-term strategy and responsible investment criteria.
  - » Prudent cash administration with appropriate internal controls, and well-managed and secure treasury environment.
  - » Soliciting adequate and cost-effective funding in advance of usage.
  - » Securing debt funding diversity (source, instrument, currency and tenor) and maintaining an appropriate mix of committed credit facilities.
  - » Maximizing the use of local funding options.
  - » Hedging most transactional foreign currency exposures (debt and payments) in line with Group's treasury policy.
  - » Pursuing "natural hedge" by matching currency of revenue, with cost and debt; and ensuring project level debt financing are in and /or swapped into currency of revenue where possible.
  - » Controlling financial counterparty exposure by transacting only with creditworthy and pre-approved financial institutions, allocating exposure limits based on bank's credit standing, and ensuring non-recourse wherever possible to Aitken Spence PLC's subsidiaries and affiliates.
  - » Maintaining strong, trustworthy relationships with lenders.
  - » Ensuring transparency in financial communications and disclosures.

High Risk ● Medium Risk ● Low Risk ●

# RISK MANAGEMENT

Reputation Risk	Risk Rating	
	2017/18	2016/17
The Group renders its services and products to millions of customers and interacts with hundreds and thousands of stakeholders annually, exposing the Group to potential reputational risk. Reputational risk, if not properly managed can quickly escalate into a major strategic crisis.	M	M
<b>Mitigation Strategies</b>		
<ul style="list-style-type: none"> <li>» In order to minimize service failures, the destination management segment, arranges guest accommodation only at star class hotels managed by reputed hotel chains. In addition, frequent visits are made by sector operations teams to assess operating standards and service levels at partner hotels.</li> <li>» All media communications are channeled through the corporate communication unit, to ensure consistency in communications.</li> <li>» The Group maintains a high standard of ethics while conducting all forms of business activities. The Group has its own code of ethics and regularly conducts workshops on ethical behaviour and procedures on anti-corruption for its staff. A copy of the code of ethics is given to all new recruits.</li> <li>» The growth of social media has resulted in a free expression of customer reviews and complaints. The corporate communication unit, manages the corporate social media accounts and monitors them constantly.</li> <li>» An on-going brand monitoring and approval process is in place to mitigate potential brand threats and is monitored across media sources, while adequate safeguards in the form of brand guidelines ensure clear and consistent communication of the Group's brand image to the market.</li> </ul>		

Environmental and Social Risk	Risk Rating	
	2017/18	2016/17
The Group's operations are exposed to various environmental risks arising from effluents, emissions, wastes, resource depletion etc. Social risks are associated with safety, health and welfare for all stakeholders within the Group's operational boundaries as well as resulting in adverse physical and psychological impacts.	L	M
<b>Mitigation Strategies</b>		
<ul style="list-style-type: none"> <li>» The Group has an integrated approach to sustainability and a key element of that strategy is the commitment to protect the environment, especially the ecosystems the Group operates in. Adopting the precautionary approach, the Group's ethos is to proactively identify potential environmental impacts and minimise if not eliminate adverse impact through management systems. All Aitken Spence companies are required to; <ul style="list-style-type: none"> <li>- identify potential adverse impacts (risks) on the environment,</li> <li>- evaluate the level of risk, control gaps and priorities, and</li> <li>- develop control measures and mitigation plans.</li> <li>- Companies are also required to evaluate the environmental impact from the use of the products and services we provide and benchmark operational activities to globally recognized industry practices to influence positive change.</li> </ul> </li> <li>» For example, the Group maintains over forty Environmental Management Systems (EMS's), aligned to ISO 14001 standards. In the plantation segment fourteen estates have Forestry Stewardship Council (FSC) systems standards, while the upcountry cluster estates are Rainforest Alliance (RA) certified.</li> <li>» The Tourism sector aligns management practices to Travelife system standards. The printing segment and the inbound travel segment offset their carbon emissions year on year.</li> <li>» The Heritage chain of hotels obtained the ISO 50001 certification for energy management systems and also monitors carbon emissions. It has the honour of being the first organisation to obtain this certification in Sri Lanka. The Group is working towards implementing systems to record carbon emissions and greenhouse gas emission data and improve the disclosure of such data across the Group in the near future.</li> </ul>		

### Environmental and Social Risk Continued.

- » Sustainability committees of the SBUs assign and train sustainability champions to monitor and maintain the above systems.
- » The Group continues to ensure that its products, services or activities have minimum impact on areas of high bio-diverse value outside protected areas. Maps marking our locations against protected areas and areas of high biodiversity value can be perused online.
- » The Group maintains compliance with applicable laws, regulations and industry best practice standards on environmental concerns where applicable.
- » Occupational Health and Safety (OHS) officers are appointed throughout the Group and are provided with the necessary training and education (such as first aid and fire safety training) to handle this responsibility.
- » All appointed OHS officers in the Group are expected to carry out hazard identification inspection measures, allocate risk levels and implement required control measures to ensure the workplace is safe and healthy for all stakeholders.
- » As an extension to the capacity building efforts, peer forums for OHS officers were launched enabling them to interact and share their knowledge with other OHS officers across the Group.
- » OHS practices of the plantations segment is certified under the rainforest alliance certification. The apparel manufacturing segment also maintains the above compliance standards that are platinum certified for compliance with the Worldwide Responsible Accredited Production (WRAP) system and the compliance+ certification of the Employers' Federation of Ceylon (EFC). The printing and packaging segment certified their OHS practices in the SBUs integrated management system (for EMS, QMS and OHS). The hotels and plantations segments also maintain food safety practices in line with the HACCP/ ISO 22000 certification and collectively maintain thirteen certified food safety management systems.
- » In adherence to the first two principles of the United Nations Global Compact (UNGC) on human rights, the Group has made great strides towards applying the essential action points of the human rights protection framework developed by the business leaders' initiative for human rights and the UNGC. Accordingly, security personnel at Aitken Spence Towers and the officers in charge at several other operations have been educated on human rights at the workplace through ongoing capacity building programmes. Selected sustainability team members have also been educated on the Group's policies and procedures to support the Human Resource Partners to strengthen the systems in place to safeguard internationally proclaimed human rights at the workplace.
- » During the last financial year, the Group commenced action to streamline processes to screen suppliers and service providers on social and environmental governance. The Group is currently working with several selected SBUs to evaluate possible methods to implement action and hopes to roll out standard mechanisms for Group level action within the next 2 years.
- » While Aitken Spence companies have focused on climate change mitigation, adaptation to the effects of climate change is an area that is still in preliminary stages. The Group has taken example from SBUs such as the plantations segment that has proactively evaluated risks from the effects of climate change to the business and commenced action to work with SBUs to identify possible risks to respective industries. The action is still in the assessment stage and the Group hopes to roll out comprehensive frameworks for SBUs to assess risks from climate change and to implement mechanisms to plan action for adaptation as a medium-term target.

 GRI 201 – 2

High Risk  Medium Risk  Low Risk 

# RISK MANAGEMENT

Cyber Security Risk	Risk Rating	
	2017/18	2016/17
Almost all processes in the Group are supported by one or many internet driven services. Internet driven services are currently going through an evolution, moving from reactive to proactive, as businesses understand the impact of a cyber-attack can have on their operational output or reputation.	H	H
<b>Mitigation Strategies</b>		
<ul style="list-style-type: none"> <li>» Well-defined Group-wide cyber security incident response process.</li> <li>» Group-wide staff awareness and cultural change programme on information security and sensitive information handling.</li> <li>» Different protection technologies are implemented to manage network perimeter defence, data loss, cyber-spoofing, distributed denial of service attack, mobile devices and monitor suspicious cyber activities.</li> <li>» The Group's centralized Information Technology (IT) division was awarded the Information Security Management Systems (ISMS) ISO 27001:2005 in 2014. This was upgraded to ISO 27001:2013 in 2015 which the division continues to maintain. This would be the governing practice for the Group's IT services.</li> <li>» IT governance policy supported by procedures over key activities such as business continuity, information security, document retention and user acceptable usage policies.</li> </ul>		

Principal Risk	Risk Rating	
	2017/18	2016/17
Some of the Group's key businesses are linked to a foreign principal and hence the continuity of the particular business is heavily dependent on the periodic renewal of the agency agreement.	M	M
<b>Mitigation Strategies</b>		
<ul style="list-style-type: none"> <li>» The Group always seeks to maintain sound relationships with principals and business partners.</li> <li>» Frequent assessments on service levels are conducted to ensure that the required service standards of principal are met.</li> <li>» The Group is always on the lookout to tie up with new principals, thus in the unlikely event of a discontinuation, the Group is in a position to secure a new agency without delay.</li> </ul>		

High Risk ● Medium Risk ● Low Risk ●

Disclosure	Description	Group 2017/2018
<b>SUB-CATEGORY: SOCIAL STANDARDS</b>		
<b>MATERIAL TOPIC: ANTI-CORRUPTION</b>		
205 – 1	Operations assessed for risks related to corruption	All operations
205 – 2	Communication and training about anti-corruption policies and procedures	100% All staff members are informed about the Group's policies on anti-corruption and the Code of Ethics
205 – 3	Confirmed incidents of corruption and actions taken	None



Refer to the Capital Reviews for more details about the management practices of the Group and the SBUs



To peruse more details of the Group's practices, please follow the link [www.aitkenspence.com/annualreport/](http://www.aitkenspence.com/annualreport/)



This section of the report contains information relevant to principle 1, 2, 3, 4, 5, and 10 of the United Global Compact on Human Rights, Labour Standards and Anti-Corruption



This section of the report contains disclosures for the following material topics of the GRI Standard for sustainability reporting;

- GRI 102 – 11 Precautionary Principle or approach
- GRI 201 Economic Performance
- GRI 205 Anti-Corruption



A comprehensive shareholder feedback form is available at the end of the report on pages 395 to 396 to obtain feedback about this report so that the disclosures in future reports can be improved to suit the reader's needs better. Please let us know if the information in this section on our risk management processes was useful to make decisions about Aitken Spence.