

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AT SUNSHINE HOLDINGS

Sunshine Holdings PLC (Sunshine Holdings) is the holding company of four subsidiaries, namely, Sunshine Healthcare Lanka Limited, Estate Management Services (Pvt) Limited, Sunshine Packaging Lanka Limited and Sunshine Energy (Pvt) Limited. The businesses of the Group companies are given on pages 6 to 7 of this Report.

Sunshine Holdings believes that an important aspect of communication with stakeholders and other interested parties, is the extent of compliance with best practice on corporate governance as promulgated in the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (ICASL), the rules set out in Section 07 of the Listing Rules of the Colombo Stock Exchange (CSE) and the Country's Legislative and Regulatory requirements relevant to the Group.

The Group's corporate governance framework provides the Directors and the Corporate Management guidance on their responsibilities and duties. It defines the matters which require Board approval, can be delegated to Management and require review by Board subcommittees.

THE BOARD OF DIRECTORS

The Company's business and operations are managed under the supervision of the Board, which consists of members with expertise and experience and strong financial and business acumen in activities that the Company is engaged in. They have a strong understanding of their roles and responsibilities.

BOARD RESPONSIBILITIES AND RIGHTS

The Board has the following powers for discharging its responsibilities:

STRATEGIC DIRECTION

The Board provides vision, strategic direction and stewardship to the institution whilst maintaining integrity, transparency, and accountability. The Board also reviews and monitors the Company's activities.

BUSINESS PERFORMANCE

The Board reviews business results on a regular basis and guides the Management by giving appropriate direction in achieving its goals.

MANAGEMENT OF RISKS

In consultation with the Audit Committee, a risk management system was developed and periodically reviewed. The Risk Management report is given on page 75 of this Report. Further, the Audit Committee Report is also given on page 83.

CODE OF CONDUCT AND ETHICS

The Company has a code of conduct and ethics which is communicated to all levels of the employees including its Board of Directors.

FINANCIAL PERFORMANCE OF THE COMPANY

The Board meets at a minimum, once in three months to review the financial performance of the Company. The Quarterly Financial Statements are reviewed by the Audit Committee before recommending to the Board of Directors for adoption and release to the public. Interim and final dividends are considered and recommended by the Board of Directors.

INVESTOR RIGHTS AND RELATIONS

The Company communicates periodically with its shareholders through the quarterly reports. The Annual Report provides a comprehensive assessment of the Company's performance during the year and its future potential.

AUDIT

An independent statutory audit is carried out annually and the appointment of Auditors for the ensuing year is recommended to the shareholders at the Annual General Meeting (AGM).

BUDGET The Board is responsible for approval of annual budgets, capital budgets and new projects.

CORPORATE GOVERNANCE Board monitors and periodically reviews the Company's Corporate Governance practices in accordance with the mandatory requirements arising from the Listing Rules of the CSE and the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.

BOARD BALANCE The Company maintains a Board balance of Executive, Non-Executive and Independent Directors as required under Listing Rules of the CSE. Together, the Directors with their wide experience in both the public and the private sectors and diverse academic backgrounds provide a collective range of skills, expertise and experience, which is vital for the successful direction of the Group.

COMPOSITION OF THE BOARD The Board consists of ten (10) members. Eight (8) members are Non-Executive Directors (including the Chairman) and two (2) are Executive Directors. Five (5) Non-Executive Directors are independent as defined under the Listing Rules of the Colombo Stock Exchange.

The Non-Executive Independent Directors are;

- Mr Munir Shaikh
- Mr S Shishoo
- Mr H Abeywickrama
- Mr A D B Talwatte
- Mr A Cabraal

There is a distinct and clear division of responsibility between the Chairman and the Group Managing Director (GMD) to ensure that there is a balance of power and authority. The roles of the Chairman and the GMD are separated and clearly defined. The Chairman is responsible for ensuring Board effectiveness and conduct whilst the GMD has overall responsibilities over the operating units, organisational effectiveness and implementation of Board policies and decisions.

COMPOSITION AND ATTENDANCE AT MEETINGS The Board met quarterly to discharge its duties effectively. In addition, special Board meetings are also held whenever necessary. A total of seven (7) meetings including the AGM and two (2) Extraordinary General Meetings (EGM) were held in the financial year ended 31 March 2019. The attendances of Directors at these meetings were as follows:

Attendance

Name of Director	Attendance at meetings	%
Mr Munir Shaikh	7/7	100
Mr G Sathasivam*	3/4	75
Mr V Govindasamy	7/7	100
Mr S G Sathasivam	5/7	71
Mr N B Weerasekera**	1/1	100
Mr A D B Talwatte	7/7	100
Mr B A Hulangamuwa****	6/7	86
Mr H Abeywickrama	5/7	71
Mr A Cabraal	7/7	100
Mr S Shishoo	6/7	86
Mr Y Kitao***	0/2	0

* Mr G Sathasivam ceased to be a Director on 28 June 2018 and was reappointed to the Board on 9 August 2018.

** Mr N B Weerasekera retired from the Board w.e.f. 28 May 2018.

*** Mr Y Kitao appointed to the Board w.e.f. 9 August 2018.

**** Mr B A Hulangamuwa retired from the Board w.e.f. 30 May 2019.

RE-ELECTION OF DIRECTORS

The provisions of the Company's Articles require a Director appointed by the Board to hold office until the next AGM and seek reappointment by the shareholders at that meeting. The Articles call for one-third of the Directors in office to retire at each AGM. The Directors who retire are those who have served for the longest period after their appointment/reappointment. Retiring Directors are generally eligible for re-election. In addition, a newly-appointed Director is required to submit himself for retirement and re-election at the AGM immediately following his appointment. The GMD does not retire by rotation.

DIRECTORS' REMUNERATION

The objectives of the Company's policy on Directors remuneration is to attract and retain Directors of the calibre needed to direct the Group successfully. In the case of the Executive Director, the component parts of the remuneration are structured so as to link rewards to corporate and individual performance. Performance is measured against profits and other targets set from the Company's annual budget and plans, and from returns provided to shareholders. In the case of Non-Executive Directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the Non-Executive Director concerned.

The Remuneration Committee recommends to the Board the frameworks of the Executive Director's remuneration and the remuneration package for the Executive Director. It is, nevertheless, the ultimate responsibility of the entire Board to approve the remuneration of the Executive Director. The Directors' remuneration is disclosed in Note 42.1 of the Financial Statements.

DELEGATION OF BOARD AUTHORITY – BOARD COMMITTEES

The Board in discharging its duties, establishes various Board committees. The functions and terms of reference of the Board committees are clearly defined and where applicable, comply with the recommendations of the Code of Best Practice on Corporate Governance. The Group has four (4) Board committees,

- Board Audit Committee
- Board Nomination and Remuneration Committee
- Board Investment Committee
- Board Related Party Transactions Review Committee

However, the Board of Directors is collectively responsible for the decisions taken on the recommendation by Board committees.

BOARD AUDIT COMMITTEE

The Audit Committee provides an oversight on the Financial Statements and other related information prepared for presentation for external financial reporting, review the work of the internal audit function and ensures that the external auditor carries out their statutory duties in an independent and objective manner. It also assists the Board in ensuring that a sound system of internal control is in place. The Committee has full access to the Auditors both internal and external who, in turn, have access at all times to the Chairman of the Committee. The Committee meets with the External Auditors without any executives being present except for the Group Secretaries, at least once a year. The report of the Audit Committee is presented on page 83 and the duties of the Audit Committee are included therein.

BOARD NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee reviews the Board composition to ensure Board balance and adequacy of skills and experiences among the members of the Board. It recommends any new appointments to the Board.

It also makes recommendations to the Board on the remuneration policy and the remuneration to be paid to each Executive Director. It also reviews the Group's remuneration policy and the remuneration packages of executive employees of the Group.

BOARD INVESTMENT COMMITTEE

The role of the Investment Committee is to review capital expenditure budgets and new projects and make recommendations to the Board of Directors.

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Committee exercises oversight on behalf of the Board, that all Related Party Transactions (RPTs, other than those exempted by the CSE listing rules on the RPTs) are carried out and disclosed in a manner consistent with the CSE Listing Rules.

MEMBERSHIP OF SUB BOARD COMMITTEES

	Appointment to the Board	Board Nomination and Remuneration Committee	Board Audit Committee	Board Investment Committee	Board Related Party Transactions Review Committee
Executive					
Mr V Govindasamy	08.02.2000				
Mr S G Sathasivam	13.06.2006				
Non-Executive					
Mr G Sathasivam	08.02.2000	x			
Mr B A Hulangamuwa***	01.02.2002		x		x
Independent Non-Executive					
Mr Munir Shaikh	16.07.2010	x			
Mr N B Weerasekara*	21.11.2008	x	x	x	x
Mr S Shishoo	18.12.2017		x		x
Mr A D B Talwatte	30.05.2016	x	x	x	x
Mr Y Kitao**	09.08.2018				
Mr A Cabraal	30.05.2017	x	x	x	x
Mr H Abeywickrama	30.06.2014		x		x

*Resigned w.e.f. 28 May 2018.

** Appointed w.e.f. 9 August 2018.

***Resigned w.e.f. 30 May 2019.

FINANCIAL ACUMEN

The Board comprises two Senior Chartered Accountants and both of them serve as members of the Audit Committee and Related Party Transactions Review Committee.

SUPPLY OF INFORMATION

Directors are provided with quarterly reports on performance, minutes of quarterly meetings and such other reports and documents as necessary. The Chairman ensures all Directors are adequately briefed on issues arising at meetings.

COMPANY SECRETARIES

The services and advice of the Company Secretaries are made available to Directors as necessary. The Company Secretaries keep the Board informed of new laws, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board.

Corporate Services (Private) Limited having their registered office at No. 216, De Saram Place, Colombo 10 are the Company Secretaries since 1 April 2016.

GOING CONCERN

The Directors after making necessary inquiries and reviews including reviews of the Group's budget for the ensuring year, capital expenditure requirements, future prospects and risks, cash flows and borrowings facilities, have a reasonable expectation of the Company's existence in the foreseeable future. Therefore, the going concern basis is adopted in the preparation of the Financial Statements.

**INTERNAL
CONTROL**

The Board is responsible for the Company's internal controls and for reviewing their effectiveness. Internal control is established with emphasis placed on safeguarding assets, making available accurate and timely information and imposing greater discipline on decision-making. It covers all controls, including financial, operational and compliance control and risk management. It is important to state, however that any system can ensure only reasonable and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time.

**COMMUNICATION
WITH
STAKEHOLDERS**

Shareholders are provided with quarterly Financial Statements and the Annual Report which the Group considers as its principal communication with them and other stakeholders. These reports are provided to the CSE and also published in print media. Shareholders may bring up concerns they have, either with the Chairman or the GMD as appropriate. Sunshine Holdings PLC's website www.sunshineholdings.lk and websites of listed companies within the Group serve to provide a wide range of information about the Group. The Company has reported a fair assessment of its position via the published audited Financial Statements and quarterly accounts. In preparation of these documents, the Company has complied with the requirements of the Companies Act No. 07 of 2007 and in accordance with the Sri Lanka Accounting Standards.

**CORPORATE
GOVERNANCE
DISCLOSURES**

The Company has published Quarterly Financial Statements with the necessary explanatory notes as required by the Rules of the CSE and the Securities and Exchange Commission of Sri Lanka to all stakeholders. Any other financial and non-financial information, which is price sensitive or warrants the shareholders and stakeholders' attention and consideration is promptly disclosed to the public.

Subject	Rule/Code number	Compliance requirement	Compliance status	Section	Page number
The Board of Directors	A 1	Company to be headed by an effective Board to direct and control the Company.	Complied	Profiles of the Board	20
	A 1.1	Regular Board meetings	Complied	Composition and attendance	209
	A 1.2	Responsibilities	Complied	Board responsibility	86
	A 1.3	Act in accordance with the laws of the country and obtain professional advice as and when required	Complied	Annual Report of the Board of Directors	4
	A 1.4	Access to Company Secretary	Complied	Communication with stakeholders	212
	A 1.5	Bring Independent judgement on various business issues and standards of business conduct	Complied	The Directors are permitted to get professional advice when necessary and the Directors of Sunshine Holdings Group has obtained professional advice for certain matters during the year and coordinated through Company secretaries	211
Chairman and Group Managing Director (GMD)	A 2	Chairman and GMD's division of responsibilities to ensure a balance of power and authority	Complied	The Chairman does not involve himself in day-to-day operations of the Group and acts as an Independent Non-Executive Director. The GMD executes powers given by the Chairman and the Board to run the operation	209

Subject	Rule/Code number	Compliance requirement	Compliance status	Section	Page number
Chairman's Role	A 3	Facilitate the effective discharge of Board functions	Complied	The Chairman is responsible for conducting meetings effectively and he preserves order and implements Board decisions taken	209
	A 3.1	Ensure Board proceedings are conducted in a proper manner	Complied	The Chairman is responsible for the effective participation of both Executive and Non-Executive Directors, their contribution for the benefit of the Group, balance of power between Executive and Non-Executive Directors and control of Group's affairs and communicate to stakeholders	209
Financial Acumen	A 4	Availability of financial acumen within the Board	Complied	Profiles of the Board	20
Board Balance	A 5.1	Non-Executive Directors	Complied	Eight (8) out of Ten (10) are Non-Executive Directors	209
	A 5.2	Independent Non-Executive Directors	Complied	Five (5) out of Eight (8) Non-Executive Directors are Independent	209
	A 5.3	Independent Non-Executive Directors	Complied	All Independent Non-Executive Directors are in fact free of any business with the Group and are not involved in any activity that would affect to their independence	209
	A 5.4	Annual Declaration	Complied	Submitted the declarations as prescribed	209
	A 5.5	Determination of independence of the Directors	Complied	The independence of Directors is determined based on declarations submitted by the Non-Executive Directors	211
Supply of Information	A 6.1	Provide appropriate and timely information to the Board	Complied	Directors are provided quarterly performance reports, minutes of review meetings and other relevant documents in advance to the Board meeting	211
	A 6.2	Adequate time for effective conduct of Board meeting	Complied	The minutes, agenda and reports for the Board meeting are provided well before the meeting date.	211
Appointments to the Board	A 7	Formal and transparent procedure for Board appointments	Complied	Nomination Committee makes recommendations to the Board on new Board appointments	210
	A 7.1	Nomination Committee to make recommendations on new Board appointments	Complied	Nomination Committee makes recommendations to the Board on new Board appointments	210

Subject	Rule/Code number	Compliance requirement	Compliance status	Section	Page number
	A 7.2	Assessment of the capability of the Board to meet strategic demands of the Company	Complied	Profiles of the Board	20
	A 7.3	Disclosure of new Board member profile and interests	Complied	Profiles of the Board	20
Re-election	A 8 – 8.2	Board members should be subject to election, and re-election by shareholders	Complied	Re-election of Directors	210
Appraisal of Board performance	A 9 – 9.3	Existence of Board evaluation methods and execution	Complied	The Chairman and Remuneration Committee evaluates the performance of the Executive Directors	210
Disclosure of information in respect of Directors	A 10 – 10.1	Profiles of Directors, Directors' interests, Board meeting attendance, Board Committee memberships	Complied	Profiles of the Board	20
Appraisal of GMD	A 11 – 11.2	Appraisal of the GMD against the set strategic targets	Complied	Evaluation is done by the Chairman and Remuneration Committee based on the financial and non-financial targets set with the discussion of the Committee	210
Directors' Remuneration	B 1	Establishment of the Remuneration Committee	Complied	Remuneration Committee Report	82
	B 1 – 1.3	Membership of the Remuneration Committee to be disclosed and should only comprise Non-Executive Directors	Complied	Discussed under subcommittees	82
Disclosure of Remuneration	B 3.1	Disclose the remuneration policy and aggregate remuneration	Complied	Discussed under subcommittees	82
Relations with Shareholders	C 1.1	Counting of proxy votes	Complied	A Form of Proxy accompanies the Annual Report, when they are dispatched to the shareholders. The Chairman makes and announcement of the proxies received at the commencement of the General meeting	enclosed

Subject	Rule/Code number	Compliance requirement	Compliance status	Section	Page number
	C 1.2	Separate resolution to be proposed for each item	Complied	The Company propose a separate resolution at the AGM on each significant issue	230
	C 1.3	Heads of Board subcommittees to be available to answer queries	Complied	Subcommittee Chairmen are present at the AGM	230
	C 1.4	Notice of Annual General Meeting to be sent to shareholders with other papers as per statute	Complied	A copy of Annual Report including financials, Notice of Meeting and the Form of Proxy are sent to shareholders, 15 working days prior to the date of the AGM	230
	C 1.5	Summary of procedures governing voting at General Meetings to be informed	Complied	Circulated through Notice of the Annual General Meeting	230
Major Transactions	C 2 – 2.1	Disclosure of all material facts involving any proposed acquisition, sale or disposal of assets	Complied	Major transactions of the Group were disclosed to all stakeholders through the CSE, print media, and the Company website	83
Accountability and Audit	D 1.1	Disclosure of interim and other price-sensitive and statutorily mandated reports to Regulators	Complied	Annual Report of the Board of Directors	4
	D 1.2 – 1.5	Declaration by the Directors that the Company has not engaged in any activities, which contravene laws and regulations, declaration of all material interests in contracts, equitable treatment of shareholders and going concern with supporting assumptions or qualifications as necessary	Complied	Annual Report of the Board of Directors	4
	D 1.3	Statement of Directors' Responsibility	Complied	Directors' Responsibility Report	86
	D 1.4	Management Review and Preview	Complied	Segment analysis	14
Internal Control	D 2.1	Annual review of effectiveness of the system of internal control	Complied	Internal Auditors carry out an independent review, and report directly to the Audit Committee	83
Audit Committee	D 3.1	Audit Committee composition	Complied	Composition of Audit Committee	83

Subject	Rule/Code number	Compliance requirement	Compliance status	Section	Page number
Communication with Shareholders	D 3.2	Terms of reference, duties and responsibilities	Complied	Clearly documented to Audit Committee charter	83
	E 1 – 1.1	Regular dialogue to be maintained with shareholders	Complied	Shareholders are provided Quarterly Financial Statements and the Annual Report. These reports are also available in the Group website and provided to the CSE	212

Levels of Compliance with the CSE's Listing Rules Section 07 – Rules on Corporate Governance are given in the following table:

Subject	Rule number	Applicable requirement	Compliance status	Details	Page number
Non-Executive Directors	7.10.1	At least one-third of the total number of Directors should be Non-Executive Directors	Complied	Eight (8) out of Ten (10) Directors are Non-Executive Directors	209
Independent Directors	7.10.2 (a)	Two or one-third of Non-Executive Directors, whichever is higher should be Independent	Complied	Five (5) out of Eight (8) Non-Executive Directors are Independent	209
Independent Directors	7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/ non-independence in the prescribed format	Complied	Non-Executive Directors have submitted these declarations	209
Disclosure relating to Directors	7.10.3 (a)	Name of independent Directors should be disclosed in the Annual Report	Complied	Please refer page 211	211
Disclosure relating to Directors	7.10.3 (b)	The basis for the Board to determine a Director is independent, if criteria specified for independence is not met	Complied	Given on page 209 under the heading of Board balance	209
Disclosure relating to Directors	7.10.3 (c)	A brief résumé of each director should be included in the Annual Report and should include the Director's areas of expertise	Complied	Profiles of the Directors	20
Disclosure relating to Directors	7.10.3 (d)	Forthwith provide a brief résumé of new Directors appointed to the Board with details specified in 7.10.3 (d) to the CSE	Complied	Brief résumés have been provided to the CSE	20
Remuneration Committee	7.10.5	A listed company shall have a Remuneration Committee	Complied	Remuneration Committee comprises – M Munir Shaikh Mr A Cabraal Mr G Sathasivam Mr A D B Talwatte	82
Composition of Remuneration Committee	7.10.5 (a)	Shall comprise Non-Executive Directors a majority of whom will be independent	Complied	All members are Non-Executive and three (3) out of four (4) are Independent	211

Subject	Rule number	Applicable requirement	Compliance status	Details	Page number
Remuneration Committee functions	7.10.5 (b)	Shall recommend the remuneration of the GMD and the Executive Directors	Complied	As above	82
Disclosure in the Annual Report relating to Remuneration Committee	7.10.5 (c)	The Annual Report should set out Names of Directors comprising the Remuneration Committee	Complied	Please refer page 211	211
		Statement of Remuneration Policy	Complied	Please refer page 82	82
		Aggregated remuneration paid to Executive and Non-Executive Directors	Complied	Note 42.1 of Financial Statement	199
Audit Committee	7.10.6	The Company shall have an Audit Committee	Complied	Please refer Report of the Audit Committee on page 83	83
Composition of Audit Committee	7.10.6 (a)	Shall comprise Non-Executive Directors, majority of whom will be Independent	Complied	Four (4) out of Five (5) Directors are Independent Non-Executive Directors	211
		Non-Executive Directors shall be appointed as the Chairman of the Committee	Complied	Chairman of the Committee is an Independent Non-Executive Director	83
		GMD and Group Chief Financial Officer (GCFO) should attend Audit Committee meetings	Complied	GMD and GCFO attend meetings by invitation	83
		The Chairman of the Audit Committee or one member should be a member of a professional Accounting body	Complied	Two (2) members are Qualified Accountants	20
Audit Committee functions	7.10.6 (b)	Should be as outlined in the Section 7.10 of the listing rules	Complied	The terms of reference of the Audit Committee have been ratified by the Board	83
Disclosure in the Annual Report relating to Audit Committee	7.10.6 (c)	a. Names of the Directors comprising the Audit Committee	Complied	Please refer page 211	211
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Complied	Please refer Audit Committee Report on page 83	83
		c. The Annual Report shall contain a Report of the Audit Committee setting out of the manner of compliance with their functions	Complied	Please refer Audit Committee Report on page 83	83