Policy on Board Committees

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MULLER & PHIPPS (CEYLON) PLC
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Muller & Phipps (Ceylon) PLC: Policy on Board Committees

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1 Introduction

The Board of Directors of Muller & Phipps (Ceylon) PLC ("M&P") shall ensure that the following Board committees are established and maintained at a minimum and are functioning effectively.

A. Nominations and Governance Committee

B. Remuneration Committee

C. Audit Committee

D. Related Party Transactions Review Committee

The Chairperson of the Board of Directors shall not be the Chairperson of the Board Committees referred to above.

2 Nominations and Governance Committee

A. Scope

M&P shall have a Nominations and Governance Committee that conforms to the requirements set out in Listing Rule 9.11

A formal procedure shall be set up for the appointment of new Directors and re-election and reappointment of Directors to the Board

The Nominations and Governance Committee shall have written terms of reference clearly defining its scope, authority, duties, and matters pertaining to the quorum of meetings.

B. Composition

Shall comprise of a minimum of three (03) Directors of M&P, out of which a minimum of two (02) members shall be Independent Directors.

Shall not comprise of Executive Directors of M&P.

An Independent Director shall be appointed as the Chairperson of the Nominations and Governance Committee by the Board of Directors.

The Chairperson and the members of the Nominations and Governance Committee shall be identified in the Annual Report of M&P.

C. Functions

a) Evaluate the appointment of Directors to the Board of Directors and Board Committees of M&P. However, a member of the Nominations and Governance Committee shall not participate in decisions relating to his/her own appointment.

b) Consider and recommend (or not recommend) the re-appointment/re-election of current Directors taking into account; the combined knowledge, experience, performance and the contribution made by the Director to meet the strategic demands of M&P and the discharge of the Board's overall responsibilities, and the number of directorships held by the Director in other listed and unlisted companies and other principal commitments.

c) Establish and maintain a formal and transparent procedure to evaluate, select and appoint/re-appoint Directors of M&P.

d) Establish and maintain a set of criteria for selection of Directors such as the academic/professional qualifications, skills, experience, and key attributes required for eligibility, taking into consideration the nature of the business of the Entity and industry specific requirements.

e) Establish and maintain a suitable process for the periodic evaluation of the performance of the Board of Directors and the CEO of the Entity to ensure that their responsibilities are satisfactorily discharged.

f) Develop succession plan for Board of Directors and Key Management Personnel of M&P.

g) Review the structure, size and composition of the Board and Board Committees about effective discharge of duties and responsibilities.

h) Review and recommend the overall corporate governance framework of M&P taking into account the Listing Rules of the Colombo Stock Exchange, other applicable regulatory requirements and industry/international best practices.

i) Periodically review and update the corporate Governance Policies / Framework of the Entity in line with the regulatory and legal developments relating to same, as a best practice.

j) Receive reports from the Management on compliance with the corporate governance framework of the Entity including the Entity's compliance with provisions of the SEC Act, Listing Rules of the Colombo Stock Exchange, and other applicable laws, together with any deviations/non-compliances and the rational for same.

k) Ensure that in terms of Colombo Stock Exchange Listing Rule 9.11.6, the Annual Report of M&P contains a report of the Nominations & Governance Committee

3 Remuneration Committee

A. Scope

a) "Remuneration" means cash and non-cash benefits received.

b) M&P shall have a Remuneration Committee that conforms to the requirements set out in the CSE (Colombo Stock Exchange) Listing Rule 9.12.

c) The Remuneration Committee shall establish and maintain a formal and transparent procedure for developing the Company's Remuneration Policy and for fixing the remuneration packages of individual Directors including Executive Directors. No Director shall be involved in fixing his/her own remuneration.

d) Remuneration for Non-Executive Directors should be based on a policy which adopts the principle of non-discriminatory pay practices among them to ensure that their independence is not impaired.

e) The Remuneration Committee shall have written terms of reference clearly defining its scope, authority, duties, and matters pertaining to the quorum of meetings.

B. Composition

a) The members of the Remuneration Committee shall comprise of a minimum of three (03) Directors of M&P, out of which a minimum of two (02) members shall be Independent Directors. It shall not be comprised of Executive Directors.

b) An Independent Director shall be appointed as the Chairperson of the Remuneration Committee by the Board of Directors.

C. Functions

a) The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and CEO of the Company to the Board of M&P which will make the final determination upon consideration of such recommendations.

b) The Remuneration Committee may engage any external consultant or expertise that may be considered necessary to ascertain or assess the relevance of the remuneration levels applicable to Directors and CEO

c) Ensure that relevant disclosures are made in the Annual Report of M&P in terms of Colombo Stock Exchange Listing Rule 9.12.8.

4 Audit Committee

If M&P does not maintain separate Committees to perform the Audit and Risk functions, The Audit Committee of M&P shall additionally perform the Risk Functions set out in Rule 9.13 of the CSE Listing Rules.

The Audit Committee shall have a written terms of reference clearly defining its scope, authority, and duties

A. Composition

a) The members of the Audit Committee shall comprise of a minimum of three (03) directors of M&P, out of which a minimum of two (02) or a majority of the members, whichever is higher, shall be Independent Directors.

b) The Audit Committee shall not comprise of any Executive Directors of M&P.

c) The quorum for a meeting of the Audit Committee shall require that the majority of those in attendance to be independent directors.

d) The Audit Committee may meet as often as required. However, the quarterly meetings, prior to recommending the financials to be released to the market shall be compulsory.

e) An Independent Director shall be appointed as the Chairperson of the Audit Committee by the Board of Directors.

f) Unless otherwise determined by the Audit Committee, the CEO, and the Chief Financial Officer (CFO) of M&P shall attend the Audit Committee meetings by invitation.

g) The Chairperson of the Audit Committee shall be a Member of a recognized professional accounting body.

B. Functions

a) Oversee the Company's compliance with financial reporting requirements, information requirements under these Rules, the Companies Act and, the SEC Act and other relevant financial reporting related regulations and requirements.

b) Review the quarterly results and year-end financial statements of the Entity prior to tabling for the approval of the Board of Directors of the Entity with special reference to:

(i) changes in or implementation of major accounting policy changes

(ii) significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events, or transactions, and how these matters are addressed

(iii) compliance with accounting standards and other legal requirements

(iv) any related party transaction and conflict of interest situation that may arise within M&P or group including any transaction, procedure or course of conduct that raises questions of management integrity

(v) any letter of resignation from the external auditors of M&P; and

(vi) whether there is reason (supported by grounds) to believe that the M&P's external auditor is not suitable for re-appointment

c) To make recommendations to the Board pertaining to appointment, reappointment, and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.

d) Obtain and review assurance received from:

(i) the CEO and the Group CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Entity's operations and finances; and

(ii) the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the Entity's risk management and internal control systems.

e) Review the internal controls in place to prevent the leakage of material information to unauthorized persons.

f) Oversee the processes to ensure that the Entity's internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards.

g) Review and assess the company's risk management process, including the adequacy of the overall control environment and controls in areas of significant risks and updated business continuity plans.

h) Review the risk policies adopted by the Company on an annual basis.

i) Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of M&P's policies and regulatory requirements.

j) Review the scope and results of the internal and external audit and its effectiveness, and the independence, performance, and objectivity of the auditors.

k) To develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by an external audit firm; and to report to the Board identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps that ought to be taken.

l) if a change of auditor is recommended by the Audit Committee in circumstances where the audit opinion of the immediately disclosed financial period or any period where subsequent disclosure of audit opinion is pending and such opinion carries a modification or an emphasis of matter of going concern, then the Audit Committee report shall include the rationale of the Audit Committee for recommending the removal of the auditor.

m) Where the Audit Committee is of the view that a matter reported by it to the Board of Directors of M&P has not been satisfactorily resolved resulting in a breach of these Requirements, the Audit Committee shall promptly report such matter to the Exchange.

n) Ensure that relevant disclosures are made in the Annual Report of M&P in terms of Colombo Stock Exchange Listing Rule 9.13.5.

o) Be responsible for oversight of ESG and sustainability related matters.

5 Related Party Transactions Review Committee

Related Party Transactions Review Committee shall be responsible for reviewing the Related Party Transactions. The objective of these Rules on Related Party Transactions is to ensure that the interests of shareholders are taken into account

A. Composition

a) The Related Party Transactions Review Committee shall comprise of a minimum of three (03) Directors of M&P out of which two (02) members shall be Independent Directors of M&P. It may also include executive directors, at the option of M&P. An Independent Director shall be appointed as the Chairperson of the Committee.

B. Functions

a) The Related Party Transactions Review Committee shall establish and maintain a clear policy, procedure, and process in place for the identification, clarification and reporting the Related Party Transactions on an end-to-end basis across the Company's operations.

b) When applying these Rules on Related Party Transactions, the objective and the economic and commercial substance of the Related Party Transactions should take precedence over the legal form and technicality.

c) The Related Party Transactions Review Committee shall meet at least once a calendar quarter. It shall ensure that the minutes of all meetings are properly documented and communicated to the Board of Directors.

C. General Requirements

a) The members of the Related Party Transactions Review Committee should ensure that they have, or have access to, enough knowledge or expertise to assess all aspects of

proposed Related Party Transactions, and where necessary, should obtain appropriate professional and expert advice from an appropriately qualified person.

b) Where necessary, the Committee shall request the Board of Directors to approve the Related Party Transactions which are under review by the Committee. In such instances, approval of the Board of Directors should be obtained prior to entering the relevant Related Party Transaction.

c) If a Director of M&P has a material personal interest in a matter being considered at a Board Meeting to approve a Related Party Transaction as required in the CSE Listing Rule 9.14.4 (3), such Director shall not

   (i) be present while the matter is being considered at the meeting; and

   (ii) vote on the matter.

D. Review of Related Party Transactions by the Related Party Transactions Review Committee

a) Subject to the exemptions given in terms of CSE Listing Rule 9.14.10, the Related Party Transactions Review Committee shall review in advance all proposed Related Party Transactions.

b) In the event of any material changes to a previously reviewed Related Party Transaction in terms of Rule 9.14.5 (1) or as (a) above, such proposed material changes shall also be reviewed by the Related Party Transactions Review Committee prior to the completion of the transaction.

c) The Related Party Transactions Review Committee shall be provided with all the facts and circumstances of the proposed Related Party Transaction by the senior management to facilitate the review of a Related Party Transaction. Such information shall include where applicable:

   (i) the Related Party's relationship to M&P and interest in the transaction;

   (ii) the material facts of the proposed Related Party Transaction, including the proposed aggregate value of such transaction;

   (iii) the benefits of the proposed Related Party Transaction to M&P;

   (iv) the availability of other sources of comparable products or services; and

   (v) an assessment of whether the proposed Related Party Transaction is on terms that are comparable to the terms generally available to an unaffiliated third party under the same or similar circumstances, or to the employees.

d) In determining whether to obtain the approval of the Board of Directors for a Related Party Transaction, the Related Party Transactions Review Committee shall consider the following, among other factors it deems appropriate:

   (i) the facts and circumstances made available to it as set out above,

   (ii) the views of the Chairperson of the Board of Directors and the Chairperson of the Nominations and Governance and/or Audit Committee of the impact of the proposed Related Party Transaction on a director's independence (if the related party

is a director, a close family member of a director or an entity in which a director is a partner, shareholder or executive officer); and

(iii) whether the Related Party Transaction requires immediate market disclosure.

e) No Director shall participate in any discussion of a proposed Related Party Transaction in which he or she is a Related Party, except that the Director, at the request of the Committee, may participate in discussions for the express purpose of providing information concerning the Related Party Transaction to the Committee. Where deemed necessary considering the issues of potential conflict, which were presented to the Committee, the Committee may recommend the creation of a special committee to review and approve the proposed Related Party Transaction.

f) If a Related Party Transaction will be ongoing (a Recurrent Related Party Transaction), the Related Party Transactions Review Committee may establish guidelines for the senior management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee, on a quarterly basis, shall review and assess ongoing relationships with the Related Party to determine whether they comply with the Committee's guidelines and that the Related Party Transaction remains appropriate.

E. Shareholder Approval

a) M&P shall obtain shareholder approval by way of a Special Resolution for the following Related Party Transactions:

If a non-recurrent transaction;

(i) Any Related Party Transaction of a value equal to, or more than:

- one third (1/3) of the Total Assets of the Entity as per the latest Audited Financial Statements of the Entity; or
- one third (1/3) of the Total Assets of the Entity as per the latest Audited Financial Statements of the Entity, when aggregated with other nonrecurrent transactions entered into with the same Related Party during the same financial year.

(ii) If M&P acquires a substantial asset from, or disposes of a substantial asset to, any Related Party of the Entity or its associates.

If a recurrent transaction;

Any recurrent Related Party Transaction of a value equal to, or more than:

(i) one third (1/3) of the gross revenue (or equivalent term for revenue in the Income Statement) and in the case of group entity consolidated group revenue of the Entity as per the latest Audited Financial Statements of the Entity; or

(ii) one third (1/3) of the gross revenue (or equivalent term for revenue in the Income Statement) and in the case of group entity consolidated group revenue of the Entity as per the latest Audited Financial Statements of the Entity, when aggregated with other recurrent transactions entered into with the same Related Party during the same financial year; And

(iii) the transactions are not in the ordinary course of business and in the opinion of the Related Party Transactions Review Committee, are on terms favorable to the Related Party than those generally available to the public.

b) Non recurrent and recurrent transaction above, which has been approved by shareholders, or is the subject of aggregation with another transaction that has been approved by shareholders, need not be included in any subsequent aggregation.

c) If a transaction requires shareholder approval as set out above, it must be obtained either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction.

F. Disclosures

Immediate Market Announcements and Disclosures in the Annual Report be made in terms of Colombo Stock Exchange Listing Rule 9.14.7 and 9.14.8 respectively.

G. Acquisition and Disposal of Assets from/to related parties

a) Except for transactions set out in CSE Listing Rule 9.14.10, M&P shall ensure that neither the M&P nor any of its subsidiaries, acquires a substantial asset from, or disposes of a substantial asset to, any Related Party of the Entity without obtaining the approval of the shareholders of the Entity by way of a Special Resolution. An asset is substantial if its value or the value of the consideration relating to such asset exceeds 1/3 of the Total Assets of the Entity as per the latest Audited Financial Statements.

b) If a transaction requires shareholder approval, such approval shall be obtained either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction.

c) Rule 9.14.9(1) does not apply to:

(i) a transaction between M&P and a wholly owned subsidiary.

(ii) a transaction between wholly owned subsidiaries of M&P.

(iii) a takeover offer made by M&P in accordance with Takeovers and Mergers Code 1995 (as amended).

(iv) any transaction entered into by M&P with a Bank as principal, on arm's length terms and in the ordinary course of its banking business.

d) The members of the Related Party Transactions Review Committee should obtain 'competent independent advice' from independent professional experts with regard to the value of the substantial assets of the Related Party Transaction under consideration. A person who is in the same group of the Listed Entity or who has a Significant Interest in or Financial Connection with M&P or the relevant Related Party shall not be eligible to give such advice. For the purpose of this Rule;

"Independent professional expert" shall mean an individual or entity who/which:

(i) does not have a shareholding carrying 10% or more of the voting rights of the Listed Entity or the Related Party; or,

(ii) does not have an income/non-cash benefits from the Listed Entity, or the Related Party equivalent to twenty percent (20%) of the individual's or entity's annual income.

"Significant Interest" means a shareholding carrying not less than 10% of the voting rights of M&P.

"Financial Connection" means a relationship resulting in transaction value equivalent to 10% of the turnover of the M&P or business.

e) The competent independent advice obtained in terms of CSE Listing Rule 9.14.9 (4) should be circulated with the notice of meeting to obtain the shareholder approval as set out in CSE Listing Rule 9.14.9 (1)

f) The competent independent advice required shall include:

(i) the key assumptions, conditions or restrictions that impact the estimate value

(ii) the different valuation methodologies considered and employed in valuing the subject asset/s and justification for adopting one or more of them in the valuation

(iii) the sources of information relied upon for the valuation

(iv) the identity of individuals participating in the valuation assignment and their qualifications

(v) statement confirming the independence of the parties participating in the advice

(vi) a statement as to whether the transaction is on usual commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the M&P and its shareholders.

H. Exempted Related Party Transactions

The following Related Party Transactions shall not fall within the ambit of these Rules governing Related Party Transactions:

a) Subject to CSE Listing Rule 9.14.8 (2) transactions with Related Parties which are recurrent, of revenue or trading nature and which is necessary for day-to- day operations of M&P or its subsidiaries and, in the opinion of the Related Party Transactions Review Committee, terms are not favorable to the Related Party than those generally available to the public.

b) The payment of dividend, issue of Securities by M&P by way of a capitalization of reserves, the exercise of Rights, options, or warrants (subject to Rules contained in CSE Listing Rule 5 and 7), sub-division of shares or consolidation of shares.

c) The grant of options, and the issue of Securities pursuant to the exercise of options, under an employee share option scheme/employees share purchase scheme (subject to Section 5.6 of the Listing Rules).

d) A transaction in marketable securities carried out in the open market where the counterparty's identity is unknown to M&P at the time of the transaction.

e) The provision or receipt of financial assistance or services, upon usual commercial terms and in the ordinary course of business, from a company whose activities are regulated by any written law relating to licensed banks, finance companies or insurance companies or are subject to supervision by the Central Bank of Sri Lanka or Insurance Board of Sri Lanka.

f) Directors' fees and remuneration, and employment remuneration.

6 Approval, Revision & Dissemination of the Policy

A. The policy should be revised as deemed necessary, particularly in the event of changes in law and authoritative sources of best practice in corporate governance. However, it will be reviewed and revised at least every two years to ensure that it is updated to reflect developments in relation to the subject.

B. The Nominations and Governance Committee has reviewed and recommended this policy which has been approved by the Board.

C. The policy is updated on the website of the Company in accordance with CSE Listing Rules

Annex I Definitions for Related Party Transactions

- "**Close Family Member"** shall mean close members of the family of a person are those family members who may be expected to influence or be influenced by, that person in their dealings with the entity and include:
- That person's children and spouse or domestic partner;
- Children of that person's spouse or domestic partner; and
- Dependents of that person or that person's spouse or domestic partner
- **"Related Party Transactions"** shall have the same meaning as defined in the Sri Lanka Accounting Standards on Related Party Transactions.
- **"Related Party"** shall have the same meaning as defined in the Sri Lanka Accounting Standards on Related Party Transactions.
- **"Total Assets"** shall mean the aggregate value of both current assets and non-current assets of M&P excluding any intangible assets. In the case of a group entity, consolidated total assets are considered.
- **"Equity"** shall mean net assets of M&P excluding redeemable and/or non-convertible preference shares issued by M&P. In the case of a group entity, consolidated net assets excluding the minority interest is considered.
- **"Recurrent Related Party Transactions"** shall mean Related Party Transactions involving the provision of goods and services or financial assistance, which are carried out on a continuing basis. Recurring business is expected to extend over a period of time. Such transactions are usually transactions in the ordinary and usual course of business of M&P.
- **"Same Related Party Transactions"** shall mean transactions between M&P or its fully owned subsidiaries and the related parties who are members of the same group.

MULLER & PHIPPS (CEYLON) PLC

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Approved at the Board Meeting on …… …….. Chairman

Circulated to the Directors on …… Uploaded to Website on …… …….. Company Secretary