



Policy on Board Committees

Hikkaduwa Beach Resort PLC



SEPTEMBER 30, 2024

HIKKADUWA BEACH RESORT PLC
No. 56/1, Kynsey Road, Colombo 08.

HIKKADUWA BEACH RESORT PLC: Policy on Board Committees

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1 Introduction

The Board of Directors of Hikkaduwa Beach Resort PLC (hereinafter referred to as the Company) shall ensure that the following Board committees are established and maintained at a minimum and are functioning effectively.

- A. Nomination and Governance Committee
- B. Remuneration Committee
- C. Audit Committee
- D. Related Party Transaction 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

The Company 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 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 a minimum of three (03) Directors of the Company, out of which a minimum of two (02) members shall be Independent Directors.

Shall not comprise Executive Directors of the Company.

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 the Company.

C. Functions

- a) Evaluate the appointment of Directors to the Board of Directors and Board Committees of the Company. 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 contribution made by the Director to meet the strategic demands of the Company 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 the Company.
- d) Establish and maintain a succession plan for Board of Directors and Key Management Personnel of the Company 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 Board of Directors and the CEO of the Entity to ensure that their responsibilities are satisfactorily discharged.
- f) Review the structure, size and composition of the Board and Board Committees about effective discharge of duties and responsibilities.
- g) Review and recommend the overall corporate governance framework of the Company taking into account the Listing Rules of the Exchange, other applicable regulatory requirements and industry/international best practices.
- h) 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.
- i) Receive reports from the Management on compliance with the corporate governance framework of the Company including the Company's compliance with provisions of the SEC Act, Listing Rules of the Exchange and other applicable laws, together with any deviations/non-compliances and the rational for same.

3 Remuneration Committee

A. Scope

- a) "Remuneration" means cash and non cash benefits received.
- b) The Company shall have a Remuneration Committee that conforms to the requirements set out in the CSE Listing Rule 9.12.
- c) The Remuneration Committee shall establish and maintain a formal and transparent procedure for developing policy on Executive Directors' remuneration and for fixing the remuneration packages of individual 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 the Company, out of which a minimum of two (02) members shall be Independent Directors. Shall not comprise of Executive Directors.
- b) In a situation where both the parent company and the subsidiary are 'Listed Entities', the Remuneration Committee of the parent company may be permitted to function as the Remuneration Committee of the subsidiary.
- c) 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 and/or equivalent position thereof to the Board of the Company 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

4 Audit Committee

The Audit Committee of the Company 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 Company, 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 Company.
- 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 Accountant of Company 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 CSE 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 Company 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 the Company including any transaction, procedure or course of conduct that raises questions of management integrity
 - (v) any letter of resignation from the external auditors of the Company; and
 - (vi) whether there is reason (supported by grounds) to believe that the Company'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 Accountant that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and
 - (ii) the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the Company'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 Company'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 Company'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 the Company has not been satisfactorily resolved resulting in a breach of these Requirements, the Audit Committee shall promptly report such matter to the Exchange.

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 the Company, out of which two (02) members shall be Independent Directors of Company. It may also include executive directors, at the option of Company. 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 the Company 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 Company 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 Company
 - (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.

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.
- B. The Nominations and Corporate Governance Committee is responsible for the initial review and recommendations to the Board and may obtain the services of the Company Secretary and Management in this regard.
- C. The policy shall be approved by the Board of Directors and signed by the Chairman.
- D. Upon revision of the policy, the Company Secretary will ensure that:
 - a) all directors are informed of the revisions
 - b) the policy is updated on the website of the Company in accordance with CSE Listing Rules

Annex I Definitions for Related Party Transactions

- “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 Hikkaduwa Beach Resort PLC excluding any intangible assets. In the case of a group entity, consolidated total 25 Confidential assets are considered.
- “Equity” shall mean net assets of Citrus Leisure PLC excluding redeemable and/or non-convertible preference shares issued by Hikkaduwa Beach Resort PLC 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 Hikkaduwa Beach Resort PLC.
- “Same Related Party Transactions” shall mean transactions between Hikkaduwa Beach Resort PLC or its fully owned subsidiaries and the related parties who are members of the same group.