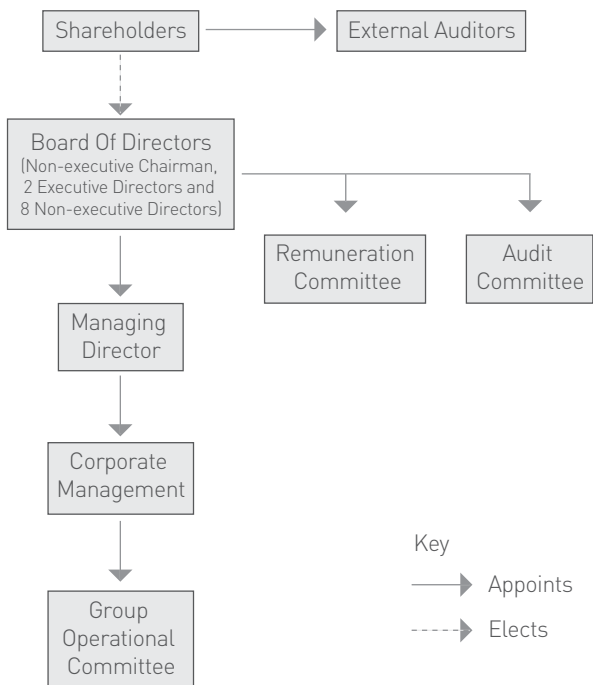


# Corporate Governance

The Group manages its affairs in accordance with appropriate standards for good corporate governance. The Board is committed to enhancing stakeholder value whilst ensuring that proper internal control systems are in place by complying with generally accepted corporate governance practices as well as specific requirements under the rules set out in Section 7.10 of the Colombo Stock Exchange's New Listing Rules and the Code of Best Practices issued by the Institute of Chartered Accountants of Sri Lanka on matters relating to the financial aspect of corporate governance as a useful guideline.

Rocell's Governance Guidelines provide Directors and management with a road map of their respective responsibilities. These guidelines, which will be updated periodically, detail clearly those matters requiring Board and Committee approval, advice or review. The Group's Governance Framework is depicted in the following diagram.



In our framework of Governance, we have identified the importance of providing the Board information which is comprehensible, relevant, reliable and timely. Critical information needs to be presented in such a way that it cannot be ignored.

## Strategic Direction and Implementation

Group strategies are subjected to a comprehensive annual review by the Board and are discussed further as necessary during the year.

The Corporate Management has been delegated authority to formulate strategies, seek approval for such strategies and implement them within the policy framework established by the Board. The achievement of targets through implementation of strategies formulated, current performance and the short-term outlook are reviewed at Operational Committee meetings which are held monthly.

## Board of Directors

The Board, comprising of professional and experienced business leaders of high repute, is entrusted with, and responsible for providing strategic direction to the company in an honest, fair, diligent and ethical manner.

## Core Duties of the Board

The Board, which is elected by the shareholders, is the ultimate decision-making body of the Company, except with respect to matters reserved to shareholders. The primary function of the Board is to exercise its collective business judgment to act in what it reasonably believes to be in the best interests of the Company and its shareholders. In exercising its business judgment, the Board acts as an advisor and counsellor to the senior management and defines and enforces standards of accountability – all with a view to enabling senior management to execute their responsibilities fully and in the interests of shareholders. The following are the Board's primary responsibilities, some of which may be carried out by Sub-Committees of the Board or the independent Directors as appropriate:

- Overseeing the conduct of the Company's business so that it is effectively managed in the long-term interests of shareholders;
- Selecting, evaluating and compensating the Managing Director and planning for Managing Director succession, as well as monitoring management's succession planning for other key executives;

- Overseeing and reviewing the Company's strategic direction and objectives, taking into account (among other considerations) the Company's risk profile and exposures;
- Monitoring the Company's accounting and financial reporting practices and reviewing the Company's financial and other controls;
- Overseeing the Company's compliance with applicable laws and regulations; and
- Overseeing the processes that are in place to safeguard the Company's assets and mitigate risks.

In discharging its duties, the Board is entitled to rely on the advice, reports and opinions of management, auditors and outside experts. In that regard, the Board and its Committees shall be entitled, at the expense of the Company, to engage such independent legal, financial or other advisors as they deem appropriate, without consulting or obtaining the approval of any officer of the Company.

### Composition of the Board

The Board consist of eleven Directors; nine Non-executive Directors and two Executive Directors being the Managing Director - Mr. Nimal Perera and the Director Marketing & Business Development – Mr. Tharana Thoradeniya.

Mr. Mangala Goonatileke and Mr. G.A.R.D. Prasanna were both appointed to the Board on 29<sup>th</sup> May 2009 and Mr. Rajan Asirwatham was appointed to the Board on 25<sup>th</sup> September 2009. Moreover, Mr. K.D.H. Perera and Late Mr. M.T.L. Fernando resigned from the Board on 29<sup>th</sup> May 2009 and 14<sup>th</sup> August 2009.

There is a balance of Executive and Non-executive Directors to ensure that the decisions taken by the Board are collective. The Non-executive Directors do not have any business interest that could materially interfere with the exercise of their independent judgment.

Each Non-Executive Director has submitted a Declaration of his independence or non- independence as required under the Listing Rules of the Colombo Stock Exchange.

The Board has determined that Mr. B.M. Amarasekera, and Mr. F.P. De Alwis are independent directors in spite of being on the Board for more than 9 years and being directors of

other subsidiary companies of Royal Ceramics Lanka PLC (RCL) in which a majority of the other members of the Board are also directors, since they are not directly involved in the management of the company. The Board is also of the view that Mr. R.B Thambiyah, Mr. L.T Samarawickrama, Mr. M. D.S. Goonatileke, Mr. G.A.R.D. Prasanna and Mr. R.N. Asirwatham can be classified as Independent Non-executive Directors although they serve on the boards of other subsidiary companies of RCL in which a majority of the other members of the Board are also Directors.

### Board Sub-Committees

#### Audit Committee

The Audit Committee is responsible for monitoring the integrity of financial statements of the Company by ensuring compliance with relevant financial reporting regulations and requirements. The Audit committee also oversees the relationship between the Company and the Auditor and reviews the Company's financial reporting system.

The Board has appointed an Audit Committee consisting entirely of Non-executive Independent Directors which is chaired by Mr. M.D.S. Goonatileke. A comprehensive Report of the Audit Committee appears on Page 34.

#### Remuneration Committee

The Remuneration Committee decides on the remuneration of Executive Directors and sets guidelines for the remuneration of the management staff within the Group. The Committee, consisting of Non-executive directors, all of whom are Independent, is chaired by Mr. B.M. Amarasekera.

The Report of the Remuneration Committee appears on Page 36 The total of Directors' Remuneration is reported in Note 27 to the Financial Statements, on page 77.

#### Board Meetings and Attendance

Scheduled Board and Board Sub-Committee meetings are arranged well in advance to ensure, as far as possible, that the Directors can manage their time commitments. All Directors are provided with supporting papers and relevant information for each meeting and are expected to attend, unless there are exceptional circumstances that prevent them from doing so. Regular meetings of the Main Board are

## Corporate Governance

scheduled once a month during the year (since July 2009, prior to which, scheduled meetings were held once in two months) to consider, among other matters, the performance and financial statements for the period and to approve

routine capital expenditure of the Company. Special Board meetings were also held as and when required to discuss urgent matters. Attendance at the scheduled Board and sub committee meetings is set out below.

Name	Directorship Status	Main Board	Audit Committee	Remuneration Committee
<b>Total Number of Meetings Held</b>		<b>10</b>	<b>3</b>	<b>2</b>
A M Weerasinghe	Non-executive Chairman	10/10*	N/A	1/1•
K D D Perera	Non-executive Director	5/10	N/A	N/A
W D N H Perera	Managing Director	9/10	3/3•	2/2•
T G Thoradeniya	Executive Director	10/10	N/A	N/A
F P De Alwis	Independent Non-executive Director	8/10	N/A	N/A
B M Amarasekera	Independent Non-executive Director	9/10	3/3	2/2*
R B Thambiayah	Independent Non-executive Director	8/10	N/A	N/A
M T L Fernando (Resigned w.e.f. 14.08.2009)	Independent Non-executive Director	0/2	0/1*	0/0
K D H Perera (Resigned Main Board w.e.f. 29.05.2009)	Non-executive Director	0/1	N/A	N/A
L T Samarawickrama	Independent Non-executive Director	7/10	3/3	2/2
M D S Goonatileke (Appointed to the main Board w.e.f. 29.05.2009)	Independent Non-executive Director	9/9	3/3*	N/A
G A R D Prasanna (Appointed to the main Board w.e.f. 29.05.2009)	Independent Non-executive Director	9/9	N/A	0/0
R N Asirwatham (Appointed to the main Board w.e.f. 25.09.2009)	Independent Non-executive Director	6/6	0/0	N/A

\* Chairman • By invitation

### **Relationship with Shareholders**

Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Group considers as its principal communication with them and other stakeholders. The Shareholders have the opportunity of meeting the Board and forwarding their questions at the Annual General Meeting. The Board believes the AGM as a means of continuing effective dialogue with shareholders. The Board offers clarifications and responds to concerns shareholders have over the content of the Annual Report as well as other matters which are important to them. The AGM is also used to adopt the Financial Statements for the year. However, this does not limit the Shareholders' communication with the Board, and they are free to communicate anytime with the Managing Director, Company Secretary or any of the senior managers depending on the matter to be addressed.

### **Internal Control**

The Board places a high priority on internal controls to manage the day-to-day affairs of the company.

The Board is responsible for the Group's internal control and its 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.

The Group's Internal Audit Department plays a significant role in assessing the effectiveness and successful implementation of existing controls and strengthening these and establishing new controls where necessary. The Internal Audit reports are made available to the Managing Director, Head of Finance & Treasury and the Audit Committee.

The Group also obtains the services of independent professional accounting firms other than the statutory auditors to carry out internal audits and reviews to supplement the work done by the Internal Audit Department.

The board has reviewed the effectiveness of the system of financial controls for the period up to the date of signing the accounts.

### **Disclosure**

The Board's policy is to disclose all relevant information to stakeholders, within the bounds of prudent commercial judgment, in addition to preparing the financial statements in accordance with Sri Lanka Accounting Standards, the Companies Act. 7 of 2007, and in conformity with Stock Exchange disclosure requirements.

### **Going Concern**

The Board of Directors, after conducting necessary inquiries and reviews of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

### **Compliance**

The Group's level of Compliance with the CSE's New Listing Rules – Section 7.10 on Corporate Governance are given in the following table.

## Corporate Governance

Corporate Governance Principles	CSE Rule Reference	Compliance Status	Rocell's level of Compliance
Non-executive Directors	7.10.1	Compliant	Nine out of eleven Directors are Non-executive
Independent Directors	7.10.2 (a) 7.10.2 (b)	Compliant Compliant	Seven out of nine Non-executive Directors are "Independent"
Disclosures relating to Directors	7.10.3	Compliant	Given under the heading of Composition of the Board of this Report and also refer page 12 and 13.
Remuneration Committee	7.10.5 (a) 7.10.5 (b) 7.10.5 (c)	Compliant Compliant	The Committee comprises of three Non-executive Directors, all of whom are Independent Please refer Remuneration Committee Report on page 36. The aggregate remuneration paid to Executive and Non-executive Directors is given under note 27 to the Financial Statements on page 77.
Audit Committee	7.10.6 (a) 7.10.6 (b)	Compliant Compliant	The Committee comprises of four Non-executive Directors, all of whom are Independent. The Chairman of the Committee is a Member of a recognised professional accounting Body. The Managing Director and the Head of Finance & Treasury attend Committee meetings by invitation. Please refer Audit Committee Report on page 34. The names of the Audit Committee members and the basis of determination of the independence of the auditor is also given in the Audit Committee report

### Other Information

The Annual Report contains statements from the Board, including the responsibilities of the Directors for the preparation of the Financial Statements, and the Directors are of the view that they have discharged their responsibilities as set out in this statement. The performance of the company and its subsidiaries during the year under review and the future prospects of the Group are covered in the Managing Director's Review of Operations and the Management Discussion and Analysis.