SECTION 9

RELATED PARTY TRANSACTIONS

Note – Section 9 has been amended by inserting the new Rule 9.6 and Appendix 9B. Please refer the SEC Directive dated 13th October 2017 (Ref: SEC/LEG/17/10/22) in this regard. The said Directive is available on the CSE website, under the tab titled “SEC Directives”.

GENERAL

The objective of these Rules pertaining to Related Party Transactions is to ensure that the interests of shareholders as a whole are taken into account by a Listed Entity when entering into Related Party Transactions. The Rules set out in this Section further provide certain measures to prevent Directors, Chief Executive Officers or Substantial Shareholders taking advantage of their positions.

The Rules contained in this Section do not apply to a Listed Entity which proposes to enter into a transaction with a Related Party, where the shares of such Listed Entity have not been listed on the Exchange.

COMPLIANCE

A Listed Entity shall comply with these Rules pertaining to Related Party Transactions with effect from 01st January 2016. Compliance with these Rules is voluntary for a period of two (02) years with effect from 01st January 2014.

In the event a Listed Entity decides to comply with these Rules pertaining to Related Party Transactions with effect from 01st January 2014, such Entity;

- shall make immediate disclosures in terms of Rule 9.3.1 of these Rules in compliance with Section 8 of these Rules;
- shall make disclosures in the Annual Report in terms of Rule 9.3.2 of these Rules; and,
- is exempted from complying with Rule 7.6(xvi) and item 29 of Appendix 8A of these Rules.

Rule 7.6(xvi) and item 29 of Appendix 8A of these Rules shall be repealed on 01st January 2016.

In applying these Rules pertaining to 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.

DEFINITIONS

For the purposes of this Section;

“Related Party Transactions” shall have the same meaning as defined in the Sri Lanka Accounting Standards.

[Note: as at 01st January 2014, LKAS 24 – ‘Related Party Disclosures’ defines the ‘related party transactions’ as follows;

“A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged”].
“Related Party” shall have the same meaning as defined in the Sri Lanka Accounting Standards.

[Note: as at 01st January 2014, LKAS 24 – ‘Related Party Disclosures’ defines the ‘related party’ as follows;

“A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

(a) A person or a close member of that person’s family is related to a reporting entity if that person:
   (i) has control or joint control over the reporting entity;
   (ii) has significant influence over the reporting entity; or
   (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
   (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   (iii) Both entities are joint ventures of the same third party.
   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   (vi) The entity is controlled or jointly controlled by a person identified in (a).
   (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)].

For the purposes of these Rules, the following person/entity falls within the scope of the definition of a Related Party;

(a) a person or an entity is a related party of the Listed Entity if that person or the entity was a related party of the Listed Entity at any time during the preceding six (6) months from the date of the transaction or if a transaction is expected to extend over a period of time, from the commencement date of the transaction;

(b) a person or an entity is a related party of a Listed Entity if the Listed Entity believes or has reasonable grounds to believe that such person or entity is likely to become a related party of the Listed Entity at any time during the subsequent six (6) months from the date of the transaction or if a transaction is expected to extend over a period of time, from the last date of the transaction.

“Total Assets” shall mean the aggregate value of both current assets and non-current assets of the Listed Entity excluding any intangible assets. In the case of a group entity, consolidated total assets are considered.

“Equity” shall mean net assets of the Listed Entity excluding redeemable and/or non-convertible preference shares issued by the Listed Entity. 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 are expected to extend over a period of time. Such transactions are usually transactions in the ordinary and usual course of business of the Listed Entity.

“Same Related Party Transactions” shall mean transactions between the Listed Entity or its fully owned subsidiaries and the related parties who are members of the same group.

**9.1 SHAREHOLDER APPROVAL**

The Listed Entity shall obtain shareholder approval by way of a Special Resolution for the following Related Party Transactions:

**9.1.1 In the event of non-recurrent transactions:**

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

(i) 1/3 of the Total Assets of the Entity as per the latest Audited Financial Statements of the Entity; OR

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

(b) If the Listed Entity acquires a substantial asset from, or disposes of a substantial asset to, any Related Party of the Entity or its associates, the shareholder approval should be obtained as required by Rule 9.4.1.

**9.1.2 In the event of recurrent transactions:**

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

(i) 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) 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.

9.1.3 In relation Rules 9.1.1(a)(ii) and 9.1.2(a)(ii) above, a transaction 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.

9.1.4 If a transaction requires shareholder approval as set out in Rules 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.

9.2 RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

9.2.1 Except for transactions set out in Rule 9.5, all other Related Party Transactions should be reviewed by the “Related Party Transactions Review Committee” (the Committee) as required in terms of the provisions set out in Appendix 9A of these Rules, either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

9.2.2 The Committee should comprise a combination of non-executive directors and independent non-executive directors. The composition of the Committee may also include executive directors, at the option of the Listed Entity. One independent non-executive director shall be appointed as Chairman of the Committee.

Criterion for defining ‘independence’ is the same criteria as set out in Rule 7.10.4 of these Rules.

9.2.3 In a situation where both the parent company and the subsidiary are Listed Entities, the Related Party Transactions Review Committee of the parent company may be permitted to function as the Related Party Transactions Review Committee of the subsidiary.

However, if the parent company is not a Listed Entity, then the Related Party Transactions Review Committee of the parent company is not permitted to act as the Related Party Transactions Review Committee of the subsidiary. The subsidiary shall have a separate Related Party Transactions Review Committee.

9.2.4 The Committee shall meet at least once a calendar quarter. The Committee shall ensure that the minutes of all meetings are properly documented and communicated to the Board of Directors.

9.2.5 Directors of the 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, they should obtain appropriate professional and expert advice from an appropriately qualified person.
9.2.6 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, the approval of the Board of Directors should be obtained prior to entering into the relevant Related Party Transaction.

9.2.7 If a director of the Listed Entity has a material personal interest in a matter being considered at a directors’ meeting to approve a Related Party Transaction as required in Rule 9.2.6 above, such director shall not:

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

(b) vote on the matter.

9.3 DISCLOSURES

9.3.1 Immediate Disclosures

(a) (i) A Listed Entity shall make an immediate announcement to the Exchange;

- of any non-recurrent Related Party Transaction with a value exceeding 10% of the Equity or 5% of the Total Assets whichever is lower, of the Entity as per the latest Audited Financial Statements.

OR

- of the latest transaction, if the aggregate value of all non-recurrent Related Party Transactions entered into with the same Related Party during the same financial year amounts to 10% of the Equity or 5% of the Total Assets whichever is lower, of the Entity as per the latest Audited Financial Statements.

(ii) Listed Entity shall disclose subsequent non-recurrent transactions which exceed 5% of the Equity of the Entity, entered into with the same Related Party during the financial year.

(b) The announcement to the Exchange shall include:

(i) Date of the transaction or the period where applicable

(ii) Name of the relevant Related Party

(iii) Relationship between the Entity and the Related Party

(iv) Details of the transaction including the amount, relevant terms of the transaction and the basis on which the terms were arrived at

(v) Rationale for entering into the transaction

(vi) The following statement:

“The Related Party Transactions Review Committee of the Entity is of the view that the transaction/s is/are on normal commercial terms, and is/are not prejudicial to the interests of the Entity and its minority shareholders and the Related Party Transaction Review Committee is/is not (delete as applicable) obtaining an opinion from an independent expert prior to forming its view on the transaction.”

(vii) The aggregate value of the Related Party Transactions for the financial year with the particular Related Party whose transaction is the subject of the announcement and the aggregate value of all Related Party Transactions for the same financial year.
9.3.2 Disclosures in the Annual Report

(a) In the case of **Non-recurrent Related Party Transactions**, if aggregate value of the non-recurrent Related Party Transactions exceeds 10% of the Equity or 5% of the Total Assets, whichever is lower, of the Listed Entity as per the latest Audited Financial Statements the following information must be presented in the Annual Report:

<table>
<thead>
<tr>
<th>Name of the Related Party</th>
<th>Relationship</th>
<th>Value of the Related Party Transactions entered into during the financial year</th>
<th>Value of Related Party Transactions as a % of Equity and as a % of Total Assets</th>
<th>Terms and Conditions of the Related Party Transactions</th>
<th>The rationale for entering into the transactions</th>
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(b) In the case of **Recurrent Related Party Transactions**, if the aggregate value of the recurrent Related Party Transactions exceeds 10% of the gross revenue/income (or equivalent term in the Income Statement and in the case of group entity consolidated revenue) as per the latest Audited Financial Statements, the Listed Entity must disclose the aggregate value of recurrent Related Party Transactions entered into during the financial year in its Annual Report. The name of the Related Party and the corresponding aggregate value of the Related Party Transactions entered into with the same Related Party must be presented in the following format:

<table>
<thead>
<tr>
<th>Name of the Related Party</th>
<th>Relationship</th>
<th>Nature of the Transaction</th>
<th>Aggregate value of Related Party Transactions entered into during the financial year</th>
<th>Aggregate value of Related Party Transactions as a % of Net Revenue/Income</th>
<th>Terms and Conditions of the Related Party Transactions</th>
</tr>
</thead>
<tbody>
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(c) The Annual Report shall contain a report by the Related Party Transactions Review Committee, setting out the following:

- Names of the Directors comprising the Committee;
- A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/observations to the Board of Directors.
- The policies and procedures adopted by the Committee for reviewing the Related Party Transactions.
- The number of times the Committee has met during the Financial Year
(d) A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions or a negative statement in the event the Entity has not entered into any Related Party Transaction/s.

9.4 ACQUISITION AND DISPOSAL OF ASSETS FROM/TO RELATED PARTIES

9.4.1 Except for transactions set out in Rule 9.5, a Listed Entity shall ensure that neither the Listed Entity 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.

9.4.2 In the event a transaction requires shareholder approval as set out in Rule 9.4.1 above, 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.

9.4.3 Rule 9.4.1 does not apply to:

- a transaction between the Listed Entity and a wholly owned subsidiary.
- a transaction between wholly owned subsidiaries of the Listed Entity.
- a takeover offer made by the Listed Entity in accordance with Takeovers and Mergers Code 1995 (as amended).
- any transaction entered into by the Listed Entity with a Bank as principal, on arms length terms and in the ordinary course of its banking business.

9.4.4 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 the Listed Entity or the relevant Related Party shall not be eligible to give such advice.

For the purpose of this Rule;

'Significant Interest' means a shareholding carrying not less than 10% of the voting rights of the Listed Entity.

'Financial Connection' means a relationship resulting in transaction value equivalent to 10% of the turnover of the Listed Entity or business.
9.4.5 The competent independent advice obtained in terms of Rule 9.4.4 above should be circulated with the notice of meeting to obtain the shareholder approval as set out in Rule 9.4.1 above.

9.4.6 The competent independent advice required in terms of Rule 9.4.4 shall include:
(a) the key assumptions, conditions or restrictions that impact the estimate value;
(b) the different valuation methodologies considered and employed in valuation the subject asset/s and justification for adopting one or more of them in the valuation;
(c) the sources of information relied upon for the valuation;
(d) the identity of individuals participating in the valuation assignment and their qualifications;
(e) statement confirming the independence of the parties participating in the advice;
(f) 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 Listed Entity and its shareholders as a whole.

9.5 EXEMPTED RELATED PARTY TRANSACTIONS
The following Related Party Transactions shall not fall within the ambit of these Rules:
(a) Subject to Rule 9.3.2(b) of these Rules, transactions with Related Parties which are recurrent, of revenue or trading nature and which is necessary for day-to-day operations of a Listed Entity 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 the Listed Entity by way of a capitalization of reserves or for cash including the exercise of Rights, options or warrants (subject to Rules contained in Section 5 of these Rules), subdivision 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 Rule 5.6 of these Rules).
(d) A transaction in marketable securities carried out in the open market where the counterparty's identity is unknown to the Listed Entity 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.
APPENDIX 9A

REVIEW OF RELATED PARTY TRANSACTIONS BY THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

1. Subject to the exemptions given in terms of Rule 9.5 of these Rules, the Related Party Transactions Review Committee ("the Committee") shall review in advance all proposed Related Party Transactions.

2. At each subsequent scheduled Committee meeting, the senior management shall update the Committee as to any proposed material changes in any previously reviewed Related Party Transactions and seek approval of the Committee for such proposed material changes prior to the completion of the transaction.

3. When seeking the views of the Committee pertaining to a Related Party Transaction, the senior management shall provide the Committee with the facts and circumstances of the proposed Related Party Transaction, including where applicable:
   i. the Related Party’s relationship to the Listed Entity 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 to the Listed Entity of the proposed Related Party Transaction;
   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 employees generally.

4. In determining whether to obtain the approval of the Board of Directors for a Related Party Transaction, the Committee shall take into account, among other factors it deemed appropriate:
   i. the facts and circumstances provided by the senior management as set out above,
   ii. upon consultation with the Chairman of the Board of Directors and the Chairman of the Nomination and/or Audit Committee, the impact of the proposed Related Party Transaction on a director’s independence (in the event the related party is a director, an immediate 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, as set out in Rule 9.3.1 of these Rules.

5. No director shall participate in any discussion of a proposed Related Party Transaction for 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.

6. In the event 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 an annual basis, shall review and assess ongoing relationships with the Related Party to determine whether they are in compliance with the Committee’s guidelines and that the Related Party Transaction remains appropriate.