
	THE KANDY HOTELS COMPANY (1938) PLC - POLICY DOCUMENT	
	POLICY ON RISK MANAGEMENT AND INTERNAL CONTROLS	
	Effective from 30.09.2024	Document No: PO- KHC/2024/006/VERSION 1

Scope	<p>The Policy on Risk Management and Internal Controls (“The Policy”) of The Kandy Hotels Company (1938) PLC (“The Company” or ‘KHC’) establishes a comprehensive framework for identifying, evaluating, and mitigating risks. It aims to safeguard assets, enhance operational efficiency, and ensure compliance with applicable laws and regulations.</p> <p>The policy has been formulated in accordance with Rule 9.2.1(f) of the listing rules of the Colombo Stock Exchange (“CSE”).</p> <p>This policy applies to all members of the Board of Directors, Key Management Personnel (“KMPs”), employees, and stakeholders involved in hotel operations, financial reporting, and compliance.</p> <p>Key objectives of the policy are as follows:</p> <ul style="list-style-type: none"> ▪ Identify and Assess Risks: Framework for identifying, evaluating, and prioritizing risks that could impact the company's operations, reputation, and financial performance. ▪ Enhance Decision-Making: Provide a structured approach to risk management that supports informed decision-making ▪ Compliance and Governance: Ensure adherence to legal and regulatory requirements, safeguard against potential liabilities and maintain good corporate governance practices. ▪ Operational Efficiency: Streamline processes to minimize inefficiencies and enhance the effectiveness of operations, ultimately improving service delivery and guest satisfaction. ▪ Financial Integrity: Safeguard the company’s assets and ensure the accuracy of financial reporting, thus protecting shareholders' interests and maintaining investor confidence. ▪ Crisis Management: Develop protocols for responding to adverse events and recover swiftly. ▪ Stakeholder Confidence: Build trust with investors, customers, and employees by demonstrating a commitment ▪ Continuous Improvement: Promote a culture of ongoing assessment and enhancement of risk management practices and internal controls, adapting to changing market conditions and emerging threats. 	
Policy measures	Commitment to 100% adherence	
Definitions	The Company	The Kandy Hotels Company (1938) PLC
	Policy	Policy on Risk Management and Internal Controls of The Kandy Hotels Company (1938) PLC
	Board	The Board of Directors of The Kandy Hotels Company (1938) PLC
	Corporate website	www.chcplc.com
	Risk Management	Risk management is the systematic process of identifying, assessing, and prioritizing risks that could potentially impact the organization’s objectives. It involves implementing strategies to minimize, monitor, and control the likelihood and impact of adverse events while maximizing opportunities. This proactive approach ensures informed decision-making and enhances organizational resilience in the face of uncertainties.

Reviewed & Confirmed		Approved by	
Shalike Karunasena	Director / Group CFO	Board of Directors	

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	Internal Controls	Internal controls are the processes and procedures implemented the Company to ensure the integrity of financial reporting, safeguard assets, and promote operational efficiency. These controls help mitigate risks by providing a framework for compliance with laws and regulations, preventing fraud, and ensuring the accuracy and reliability of financial information. Effective internal controls support the organization’s overall risk management strategy and contribute to the achievement of its objectives.
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Review	The policy will undergo regular assessments by the Board of Directors (‘Board’) to evaluate its effectiveness and relevance. Feedback from stakeholders will be integrated into the review process to enhance its applicability.
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Approval and Implementation

1.1	This policy was approved by the Board of Directors following the recommendations of the Audit Committee and was communicated to all employees to ensure comprehensive understanding and compliance.
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Risk Management Framework

2.1	<table border="1" style="width: 100%;"> <tr> <td style="width: 20%;">Risk Identification</td> <td>Regularly identify risks related to market conditions, operational processes, financial reporting, and compliance</td> </tr> <tr> <td>Risk Assessment</td> <td>Evaluate risks based on likelihood and impact, categorizing them into high, medium, and low</td> </tr> <tr> <td>Risk Mitigation</td> <td>Develop strategies to manage identified risks, including avoidance, reduction, sharing, or acceptance</td> </tr> <tr> <td>Monitoring and Reporting</td> <td>Continuously monitor risk exposure and report findings to management and the Board of Directors on a regular basis</td> </tr> </table>	Risk Identification	Regularly identify risks related to market conditions, operational processes, financial reporting, and compliance	Risk Assessment	Evaluate risks based on likelihood and impact, categorizing them into high, medium, and low	Risk Mitigation	Develop strategies to manage identified risks, including avoidance, reduction, sharing, or acceptance	Monitoring and Reporting	Continuously monitor risk exposure and report findings to management and the Board of Directors on a regular basis
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Internal Control System

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Key Risk Types


4.1	The Company should consider the following key risk types.	
	Market Risk	Fluctuations in demand due to economic conditions, seasonal trends, and competition can significantly impact occupancy rates and revenue. This includes risks associated with interest rate fluctuations, currency exchange rates (for international operations), and credit risk from customers and suppliers.
	Health and Safety Risks	Ensuring the health and safety of guests and employees is paramount, particularly in the wake of events like pandemics, requiring robust health protocols and crisis management plans.
	Operational Risk	Risks related to daily operations, including staffing shortages, service quality issues, and supply chain disruptions, can affect guest satisfaction and profitability.
	Cybersecurity Risk	Increasing reliance on technology exposes hotels to risks of data breaches, ransomware attacks, and other cyber threats that can compromise guest information and operational systems.
	Reputational Risk	Negative reviews, social media backlash, or high-profile incidents can damage a hotel's reputation, leading to decreased bookings and revenue.
	Strategic Risk	Risks associated with the overall strategic direction of the hotel, including decisions related to expansion, partnerships, and brand positioning.
	Technology Risk	Dependence on technology for operations, marketing, and guest services can introduce risks related to system failures, obsolescence, or inadequate IT support.
	Regulatory Risk	Compliance with local, national, and international regulations—including health, safety, and environmental laws—can pose significant challenges.
	Environmental Risks	Risks related to natural disasters, and sustainability practices can impact operations and long-term viability.

Roles and Responsibilities

Board of Directors

5.1	The Board of Directors of the Company oversees the risk management and internal control policies, ensuring alignment with the Company's strategic objectives.	
	<ul style="list-style-type: none"> ▪ Ensure the establishment and effectiveness of a comprehensive risk management framework that aligns with the company's strategic objectives. ▪ Define the organization's risk appetite and tolerance levels, guiding management in decision-making processes. ▪ Regularly review and approve the risk management policy and internal control systems, ensuring they are up-to-date and effective. ▪ Monitor the organization's risk exposure and the effectiveness of risk management practices, ensuring timely responses to emerging risks. ▪ Ensure transparent reporting on risk management activities to stakeholders, fostering accountability and trust. ▪ Allocate adequate resources to support risk management initiatives and internal control 	

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processes.

- Foster a culture of risk awareness throughout the organization, encouraging open communication about risks and controls.
- Oversee the internal audit function, ensuring that findings and recommendations are addressed appropriately.
- Ensure compliance with relevant laws, regulations, and standards related to risk management and internal controls.
- Provide strategic guidance to management on risk-related matters and support the development of risk mitigation strategies.


Audit Committee

- 5.2 The Audit Committee of the Company holds a critical responsibility in overseeing the risk management function, which encompasses the evaluation and monitoring of risks while recommending appropriate actions to the Board. In alignment with the listing rules of the Colombo Stock Exchange, the Audit Committee's terms of reference have been updated to include the following key functions.
- **Review of Assurance:** Obtain and evaluate assurances from the Group Chief Financial Officer regarding the adequacy and effectiveness of the Company's risk management and internal control systems.
 - **Protection of Confidential Information:** Assess the internal controls implemented to prevent unauthorized disclosure of material information.
 - **Compliance with Accounting Standards:** Oversee processes ensuring that the Company's internal controls and risk management frameworks meet the requirements of Sri Lanka Accounting Standards.
 - **Risk Management Assessment:** Review and assess the Company's risk management processes, focusing on the overall control environment, significant risk areas, and the robustness of updated business continuity plans.
 - **Annual Policy Review:** Conduct an annual review of the risk policies adopted by the Company to ensure their relevance and effectiveness.
 - **Corrective Action:** Implement prompt corrective measures to mitigate the impact of specific risks that exceed the prudent thresholds established by the committee, based on the Company's policies and regulatory obligations.

Key Management Personnel

- 5.3 The Key Management Personnel of the Company bears the critical responsibility of implementing risk management strategies and internal controls, as well as reporting on their effectiveness. Their key responsibilities are outlined as follows:
- **Design and Implementation of Controls:** Develop and execute robust internal controls aimed at mitigating identified risks, thereby ensuring the integrity of financial reporting and the efficacy of operational processes.
 - **Continuous Monitoring:** Regularly assess the effectiveness of risk management practices and internal controls, delivering timely updates to the Board and the Audit Committee to facilitate informed decision-making.
 - **Regulatory Compliance:** Ensure adherence to all relevant laws, regulations, and industry standards, alongside strict compliance with internal policies and procedures.
 - **Resource Allocation:** Strategically allocate adequate financial and human resources to

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support the implementation and sustainability of effective risk management and internal control systems.

- **Stakeholder Communication:** Engage in transparent communication with both internal and external stakeholders regarding risk management initiatives, fostering a culture of accountability.
- **Ongoing Review and Enhancement:** Conduct regular reviews and enhancements of risk management and internal control processes, incorporating feedback and adapting to changes in the business landscape and emerging risks.

Employees

- 5.4 Employees of the Company are expected to adhere to risk management policies and participate in training programs to understand their role in risk mitigation.

Compliance, Reporting and Continuous Improvement

- 5.5 This section outlines the framework for ensuring compliance, reporting protocols, regular reviews, and a commitment to continuous improvement within the context of the policy.

- **Compliance** - Adherence to this policy is mandatory for all employees, with oversight provided by the Board of Directors to ensure alignment with regulatory requirements and best practices.
- **Reporting** - In accordance with the listing rules of the Colombo Stock Exchange, the Audit Committee is required to provide a comprehensive report on the status of risk management and internal controls within its section of the Annual Report. The Company further presents a distinct risk management report detailing its risk management framework, which is also included in the Annual Report. Moreover, a dedicated note on financial risk management—encompassing objectives and policies—is incorporated into the financial statements.
- **Continuous Improvement** - A culture of continuous improvement will be fostered, encouraging all employees to contribute insights and suggestions for refining risk management and internal control processes. Regular training sessions and updates will be implemented to ensure ongoing awareness and adaptation to emerging risks.

Training and Awareness


- 6.1 To facilitate the effective implementation of the policy, comprehensive and ongoing training programs will be instituted for all employees. These programs will be regularly assessed to gauge their effectiveness, ensuring they adapt to emerging risks and align with the evolving needs of the Company. By prioritizing education and active engagement, the Company seeks to cultivate a proactive approach to risk management and internal controls at every level.

Remedial Measures

- 7.1 To address identified deficiencies and enhance the effectiveness of the policy, the following remedial measures will be implemented:

- Upon identifying a risk or control failure, a thorough root cause analysis will be conducted to understand the underlying issues and prevent recurrence.
- Specific, actionable plans will be developed to address identified weaknesses, outlining clear responsibilities, timelines, and resource allocations.
- Targeted training sessions will be organized to address knowledge gaps and ensure that all

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	<p>employees are equipped with the necessary skills to manage risks effectively.</p> <ul style="list-style-type: none"> ▪ Regular monitoring will be instituted to track the implementation of remedial measures. Reviews will be scheduled to assess progress and make necessary adjustments. ▪ Transparent communication channels will be established to ensure that all stakeholders are informed about identified risks, corrective actions taken, and progress made. ▪ A culture of continuous improvement will be encouraged, promoting employee feedback and suggestions for refining risk management practices and internal controls.
Publication of the policy	
8.1	The policy is accessible on the Company’s corporate website for the review of stakeholders. Any clarifications regarding the policy should be directed to the Group Chief Financial Officer.
Policy Output	Enhanced risk management structure and adherence to best practices
Policy Records	Policy on Risk Management and Internal Controls

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