



LASCO MANUFACTURING LIMITED

CORPORATE GOVERNANCE POLICY

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1. INTRODUCTION

The Board of Directors (“the Board” or “Directors”) of LASCO Manufacturing Limited (LML) recognizes that high quality corporate governance helps to underpin long-term company performance resulting in high levels of investor confidence.

In this context, the Board has reviewed and adopted the Principles based on the Code on Corporate Governance promulgated by the Private Sector Organization of Jamaica. In accordance with the said Principles and on an ongoing basis, the Board will assess and implement best practices as it deems appropriate.¹

This Corporate Governance Policy is designed as a guide to ensure the Board’s compliance with good corporate governance and Best Practices to effectively achieve the Company’s objectives and to ensure that its obligations to its shareholders are met. This is an active and engaged responsibility that requires the Board to regularly review and monitor the effectiveness of management’s performance in carrying out the policies of the Board and management’s decisions and strategies it documents the Company’s standards governing Board composition and effectiveness, the role of Board Committees, risk management, remuneration, evaluation and relations with its shareholders.

This policy document has as its primary function the attainment of the objectives of the shareholders of the company and in its application due consideration and regard must be given to the objectives set by the shareholders to the intent that those objectives are paramount; they are the corporate purposes.

¹ See the Combined Code on Corporate Governance as consolidated and refined by Hampel and see the Listing Rules in the United Kingdom.

2. THE BOARD OF DIRECTORS

2.1 FUNCTIONS AND RESPONSIBILITIES

2.1.1 The Board's primary responsibility is to provide effective governance in supervising the management of the Company's affairs to ensure that all its stakeholders are protected. In doing so it must strive to balance the interests of the Company's diverse constituencies, including its shareholders, customers, suppliers, employees, creditors² and the communities in which it operates. In discharging their responsibilities, Directors are expected to act honestly and in good faith in the exercise of due care and to act in the best interest of the Company, and in doing so, may rely on the advice and reports of the Company's Senior Management, and other independent professionals.

2.1.2 The Board makes its decisions directly or through its established Sub-Committees, and reviews and approves key policies and supervises the management of the Company particularly in relation to:

- i. Business strategy, including annual operating plans and budgets;
- ii. Business development initiatives including major investments and disposals;³
- iii. Corporate governance;

² At common law the Directors of an insolvent company must have regard to the interest of its creditors. *See WEST MERCIA SAFETYWEAR LTD. v DODD (1988) B.C.L.C. 250* AND in Australia it has been held that even if the company is not insolvent but the director knows that there is a real risk of insolvency the director has a duty to the company's creditors. *See COLIN GWYER & ASSOCIATES LTD. v LONDON WHARF LIMITATIONS LTD. (2003) 2 B.C.L.C. AT 153* per Judge Leslie Kosmin as follows: *"Where a company is insolvent or of doubtful insolvency or on the verge of solvency and it is the creditors money which is at risk, the directors, when carrying out their duty to the company, must consider the interest of the creditors as paramount and take those into account when exercising their discretion."* In considering the rights of creditors it must be borne in mind that there is no rule that continuing to trade whilst insolvent is fraudulent. In re *WHITE OSMOND (PARKSTONE) LTD. Ch. D 1960* Buckley J said: *"There is nothing to say that the directors who genuinely believe that the clouds will roll away and the sunshine of prosperity will shine upon them again and disperse the fog of their depression are not entitled to incur the credit to help them get over the bad time."* Further, the fact that the company is trading whilst insolvent does not itself mean that the trading is wrongful so as to create a liability under the statute or otherwise. There is wrongful trading only if there is no reasonable prospect of not going into insolvent liquidation. If there is a reasonable prospect of not going into insolvent liquidation, liability for wrongful trading does not arise. See in this regard *SECRETARY OF STATE FOR TRADE AND INDUSTRY v TAYLOR (1997) 1 WLR 407*.

³ This requirement affects what is described as the 'fiduciary duty of directors' as it cannot be equated to that of a normal trustee who cannot take risks with the trust assets. An act done in the unreasonable belief that it was in the interest of the company is not in breach of the fiduciary duty provided the belief was held honestly. *See EXTRASURE TRAVEL INSURANCE LTD. v SCATTERGOOD (2003) 1 B.C.L.C. 598 at 90 and 97*.

- iv. Compliance with applicable laws, regulations and codes of ethical business conduct;⁴
- v. Corporate citizenship⁵, social responsibility and sustainable environmental practices;⁶
- vi. Corporate financing and treasury related activities;
- vii. Compensation, including directors and executive compensation and overall remuneration policies and practices (including employee benefit plans);
- viii. Risk management and the adequacy of financial controls;⁷
- ix. Organizational structure and succession planning;
- x. Financial reporting;
- xi. Timely, accurate and balanced disclosure of material information about LML to appropriate stakeholders, including the shareholders and the Jamaica Stock Exchange (JSE);
- xii. So long as the company is a Junior Market Company to appoint and keep employed a Mentor as required by the Junior Market Rules;⁸
- xiii. The identification, evaluation and selection of candidates for the Board,
- xiv. The assignment of specific responsibilities for the Chairman, all Directors, the Company Secretary and all Sub-Committees, and
- xv. The appointment and removal of the Chairman, the Deputy Chairman, the Managing Director, the Company Secretary and

⁴ See Section 174 of the Companies Act 2004

⁵ Corporate citizenship implies an ethical relationship of responsibility between the company and the society in which it operates. As a responsible corporate citizen, the company should protect, enhance and invest in the wellbeing of the economy, society and the natural environment.

⁶ See section 174(4) of the Companies Act 2004

⁷ Once views are honestly held and there is no conflict of interest, a court will not substitute its views for those of the directors. See *HOWARD SMITH LTD. v AMPOL PETROLEUM LTD. (1994) A.C. 821* per Lord Wilberforce at 832: ***“There is no appeal on merits from management decisions to courts of law: nor will the courts of law assume to act as a kind of supervisory board over the decisions within the powers of management honestly arrived at.”***

⁸ See rules 500; 503; and 505 of the Jamaica Stock Exchange (Junior Market).

executives reporting directly to the Managing Director, including the delegation of powers to these individuals within authorized discretionary levels.

- 2.1.3 The annual report should include a statement of how the Board operates, including a high level statement of which types of decisions are to be taken by the Board and which are to be delegated to management.

2.2 CHAIRMAN

- 2.2.1 The Chairman of the Board is principally responsible for chairing the Board, overseeing its effective operation, and for ensuring that the information Directors receive is sufficient to make informed decisions. The Chairman should also facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and Non-Executive Directors.

- 2.2.2 The Chairman will, in consultation with the Managing Director and the Company Secretary, establish the agenda for each Board meeting. The Board will ensure that there is a clear division of responsibilities at the head of the Company between the running of the Board (the Chairman) and the executive responsibility for the running of the Company's business (the Managing Director). No one individual will have unfettered powers of decision.

2.3 DIRECTORS

- 2.3.1 Directors are expected to regularly attend meetings of LML's shareholders, Board and Board Committees on which they serve, and to spend the time needed to prepare for and to meet as frequently as necessary to properly discharge their responsibilities. Prior to a Board or Committee meeting, Directors are entitled to receive information and materials that are important to the Board's understanding of the business to be conducted in order to provide adequate time for review. Each Board member is free to suggest items for inclusion on the agenda or to raise subjects that are not on the agenda for a meeting.

- 2.3.2 Directors should be knowledgeable and informed about the business of LML and their duties and responsibilities. The Company will assist Directors in their education about the Company and their duties and responsibilities as Directors.⁹

⁹ Section 174(1) (b) of the Companies Act requires directors to exercise care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances. To discharge their duties in accordance with this requirement each director must acquaint himself/herself with knowledge of the company's business. In **BARINGS PLC No.5 (2000) 1 B.C.L.C. 523 at 535 to 536** the Court of Appeal stated: ***"Directors have both collectively, and individually, a continuing duty to acquire and maintain a sufficient knowledge and understanding of the company's business to enable them properly to discharge their duties as directors."***

The Directors' education programme will include a periodic review of the vision, strategic direction, core values, financial matters, corporate governance practices and other key policies and practices of LML and will provide for meetings with Executive Management as required. The Company Secretary shall provide new Directors with information about LML to assist them in their orientation in the Company.

- 2.3.4 All Directors have access to presentations on aspects of LML's business and operations and Management has a duty to regularly update the Board on changing regulation and practices related to corporate governance.
- 2.3.5 All Directors have access to the Company Secretary's advice and services in respect of the administration of the functions of the Board. Directors may obtain independent professional advice in the course of their duties, if necessary, at the Company's expense.
- 2.3.6 The Chairman should ensure that the Directors consistently update the skills required to fulfill their roles on the Board.

2.4 **COMPANY SECRETARY**

- 2.4.1 The Company Secretary is responsible for recording Board decisions and for administering the Board's agreed policies and procedures so as to support effective decision-making and governance.
- 2.4.2 The Company Secretary is appointed by, and can only be removed by the Board.
- 2.4.3 The Company Secretary is a key advisor to the board and management on compliance, corporate governance and shareholder matters.

3. *COMPOSITION AND SELECTION OF DIRECTORS*

- 3.1 Directors are required to apply a range of skills and expertise in the execution of their responsibilities. This is carefully considered in the selection and composition of the Board. Unless otherwise determined by a general meeting, the number of Directors on the Board of the Company will not exceed twelve (12).
- 3.2 The number of Non-Executive Directors should equal or exceed fifty per cent of the total number of Directors, and two thirds of the Non-Executive Directors should be independent.

- 3.3 The Company will have at least two Independent Non-Executive directors. An “Independent Director” means a Director who is **not related** to the Company by virtue of the following circumstances i.e. a Director who:
1. Has been an employee of any LASCO Affiliated Company within the last three (3) years;
 2. Has or has had within the last three (3) years, a material business relationship with any LASCO Affiliated Company either directly, or as a partner, shareholder, director or senior officer of a body that has such a relationship with any LASCO Affiliated Company;
 3. Has received within the last three (3) years or receives additional remuneration from any LASCO Affiliated Company apart from Board or Board Committee related fees;
 4. Is an immediate family member of any Directors or Senior Officers of any LASCO Affiliated Company;
 5. Is employed as a senior officer of another company where any of the Company’s Directors or Senior Officers serve on that company’s board of directors;
 6. Represents a significant shareholder; or
 7. Has served on the Board for more than seven years from the date of their first election.
- 3.4 “Senior Officers” of the Company are those persons named as such in quarterly and annual reports of the Company to the JSE. Election, terms, re-election and retirement of each Board member will be consistent with the Articles of Incorporation (“Articles”) of the Company and any other standards or criteria set by the Board.
- 3.5 The Board will appoint one of the Independent Non-Executive Directors to be the Senior Independent Director, who will be identified in the annual report. The Senior Independent Director should be available to shareholders if they have concerns, which contact through the normal channels of the Chairman, or Managing Director has failed to resolve, or for which such contact is inappropriate. The annual report should identify each independent Non - Executive Director as well as the Senior Independent Director.

4. BOARD MEETINGS

- 4.1 During each financial year, there will be a minimum of four (4) regular meetings of the Board. The required quorum for each meeting will be, in accordance with the Company’s Articles. Special Board meetings may occur at such other times as any member of the Board may reasonably request.

5. PERFORMANCE EVALUATION

- 5.1 The Directors will conduct an annual review of the Board's performance in accordance with applicable standards of corporate governance. The performance of individual Directors as well as that of the various Sub-Committees will also be assessed annually. The Board should state in the annual report how the performance evaluation of the Board, Sub-Committees and individual Directors was conducted.
- 5.2 The Non-Executive Directors led by the Senior Independent Director should be responsible for the performance evaluation of the Chairman.

6. DISCLOSURES AND DEALINGS IN SHARES

- 6.1 The Company is committed to providing timely, accurate and balanced disclosure of all material information about the Company and fair and equal access to such information.
- 6.2 The Board requires that management puts processes in place to support its policy of full, true, plain and timely disclosure of financial results, significant developments and other material information to appropriate stakeholders such as shareholders, regulators, employees, analysts and the JSE. Disclosure by the Company will be made in accordance with the Policy Statement on Timely Disclosure issued by the JSE¹⁰.
- 6.3 Any dealings in the Company's shares by any Director must be promptly reported to the Company Secretary who is obliged to disclose such information on a regular basis to the JSE. No Director should trade in the Company's shares during "black-out" periods, which include:
 - i. The period of two (2) months immediately preceding the announcement of the company's annual results
 - ii. The period of one (1) month immediately preceding the announcement of the company's quarterly results
 - iii. The period of one (1) month immediately preceding any dividends and distributions to be paid or passed or where the Directors are in possession of price-sensitive information that is not available to the general public or its shareholders.

¹⁰ See Appendix 8– Policy Statement on Timely Disclosure, Jamaica Stock Exchange Rules

- 6.4 A Director who has a personal interest in any transactions with LML which could create or appear to create a conflict of interest must disclose such interests. These transactions include but are not limited to:
- i. Any interest in contracts or proposed contracts with LML or in a firm, which does business with LML,
 - ii. A transaction involving securities held in LML,
 - iii. Emoluments received from LML,
 - iv. Loans or guarantees granted by LML to/for the Director, or
 - v. Charitable contributions to organizations in which a Director serves on the board or as an employee.
- 6.5 Disclosure will be made in writing to the Chairman for disclosure to the Board or at the first opportunity at a Board Meeting in which case such disclosure will be recorded in the minutes of the Board Meeting. The Director will then offer to recuse himself/herself from the Board's deliberations over any such contract and will not vote on any such issue. The disclosure of a Director's interest will include the interests of his/her family and affiliates.

7. BOARD COMMITTEES

- 7.1 No individual should sit on all four principal Board Committees (Audit & Compliance, Assets & Liabilities, Nomination and Compensation) at the same time.

7.2 *Audit & Compliance Committee*

- 7.2.1 The Board will establish formal arrangements for selecting independent auditors and will ensure that the independent auditors thoroughly check the Company's financial accounts, application of financial reporting standards and efficiency of internal control mechanisms. The Board must maintain an appropriate relationship with the Company's auditors. On behalf of the Board, the Audit & Compliance Committee will:
- i. Review and approve LML's annual and interim financial statements and assumptions and any accompanying reports or related policies and statements;
 - ii. Examine, discuss and approve the internal audit plan for the year and review the internal audit report which should include an overall assessment of the internal control, risk, financial reporting, compliance

and corporate governance environments of the Company Monitor and review the effectiveness of LML's internal audit function;

- iii. Monitor and review the external auditor's independence, objectivity and effectiveness; examine, discuss and approve the external auditors' plan (and fees) and review and discuss the Auditors' Management Letter to the Company;
- iv. Develop and implement policy on the engagement of external auditor professionals to supply non-audit services;
- v. Examine, discuss and approve the Compliance Programme periodically, which forms the basis for the Money Laundering Prevention and Counter Financing of Terrorism manuals and procedures for agents, staff and Directors;
- vi. Ensure that the recommendations highlighted in internal audit reports and the management letter prepared by the external auditor, are addressed by management on a timely basis;
- vii. Review and approve related party transactions;
- viii. Supervise special investigations when requested by the Board

7.2.2 The Board will appoint the Chairman of the Audit & Compliance Committee. The Board Chairman will not be appointed Chairman of the Audit & Compliance Committee. The Audit & Compliance Committee will consist of a minimum of three (3) members and will not include more than two (2) Executive Directors. The Audit & Compliance Committee will meet at least four (4) times per year.

7.2.3 The Committee meets at least four (4) times per year. It also reviews the annual financial plan of the Company and recommends its acceptance by the Board.

7.3 *Nomination Committee*

7.3.1 The Board will appoint a Nomination Committee which will lead the process for Board appointments and make recommendations to the Board. The majority of members of the Nomination Committee will be Independent Non-Executive Directors. The Chairman or an Independent Non-Executive Director will chair the Committee, but the Chairman will not chair the Nomination Committee

when it is dealing with the appointment of a successor to the chairmanship. The Nomination Committee will make available its terms of reference, explaining its role and the authority delegated to it by the Board. The Nomination Committee will consist of no less than three (3) directors and will meet at least once per year, but as often as is required to fulfill its mandate, and at such other times as any member of the Committee may reasonably request.

7.3.2 The Nomination Committee serves inter alia to:

- Nominate potential candidates and evaluate their suitability for future Board membership,
- Propose suitable candidates to the Board for approval, and
- Approach the future candidate and upon positive response, introduce the candidate to the Board.

7.3.3 In discharging its responsibility for keeping under review, the composition of the Board and succession to it, the Nomination Committee will make recommendations to the Board in consultation with the Company's Chairman and Managing Director concerning potential appointments, having due regard to the balance and structure of the Board, the required blend of skills and experience and the benefits of a diverse Board. Diversity on the Board should relate to academic qualifications, technical expertise, relevant industry knowledge and gender.

7.3.4 The terms and conditions of appointment of Non-Executive Directors will be made available to the shareholders for inspection. The letter of appointment will set out the expected time commitment. The candidates for election as Non-Executive Directors on the Board should submit their written consent to be elected and confirmation of their understanding of the duties they assume in case of election, and consent to conform to the code of conduct approved by the Board. Their material interests and commitments should be disclosed to the Board before appointment, with a broad indication of the time involved and the Board should be informed of subsequent changes.

7.3.5 The Board shall disclose to shareholders why it believes an individual should be elected as a Non-Executive Director and how he or she meets the requirements of the role. The names of Directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.

7.3.6 The Nomination Committee will review annually the performance evaluation of all Non-Executive Directors to determine whether they have effectively discharged their duties. If the Non-Executive director is offered appointments

elsewhere, the Chairman of the Nomination Committee should be informed before any new appointments are accepted and the Board should subsequently be informed of any potential conflicts of interest.

- 7.3.7 No Executive Director of LML will take on more than one Non-Executive Directorship, or become Chairman, of a company listed on the JSE. The Chairman of the Board will not chair the board of another company listed on the JSE.
- 7.3.8 The Board will satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board. In accordance with the Articles, the Board may appoint any such person either to fill a casual vacancy or as an addition to the Board so long as the total number of Directors does not exceed the maximum permitted by the Articles or determined by the Company in a General Meeting.
- 7.3.9 The Nomination Committee will make a statement in the annual report detailing its activities and the process it has used to make appointments.

7.4 Compensation Committee

The Board will appoint a Compensation Committee of no less than three (3) Directors. Executive Directors are expressly excluded from serving on this Committee.

- 7.4.1 The Compensation Committee will meet at least once per year, but as often as is required to fulfill its mandate, and at such other times as any member of the Committee may reasonably request.
- 7.4.2 The determination of compensation of Directors is subject to ratification or modification under the Articles. The level of compensation of the Non-Executive Directors reflects the time, commitment and responsibilities of the role. It consists of a package appropriate to attract, retain and motivate Non-Executive Directors of the quality required. The compensation is competitive and subject to regular review against what is paid in comparable situations elsewhere.
- 7.4.3 The Compensation Committee will also conduct an annual review of the remuneration policies for Executive Directors and Senior Officers of LML, as well as material employee benefits and compensation plans and programmes. This review will include an assessment of whether LML's compensation plans are

consistent with the sustainable achievement of its business objectives, the prudent management of its operations and the risks to which it is exposed, and will look for adherence to the Company's processes, policies, procedures and controls. The Compensation Committee will review LML's senior level organization structure and management succession plan at least annually.

8. RELATIONSHIP WITH SHAREHOLDERS

- 8.1 There will be regular communication between LML and its shareholders based on the mutual understanding of objectives. The Chairman and the Board as a whole will maintain contact with shareholders to understand their issues and concerns.
- 8.2 The Board will use the Annual General Meeting (AGM) as its principal opportunity to inform shareholders and investors of the Company's affairs and encourage their participation. The Directors will ensure that the information it provides, presents a balanced and understandable assessment of the Company's financial and business position in order for the AGM to make well-informed decisions on the issues.

9. AMENDMENTS TO THIS CORPORATE GOVERNANCE POLICY

- 9.1 This Corporate Governance Policy will be reviewed annually by the Company Secretary or at shorter intervals as might be required by the Board of Directors and report his recommendations to the Board. The JSE will be advised of any amendments to the Policy with immediate effect.

The Company Secretary will take steps to ensure that the Policy is made available on the website of the Company and state as such (including the website address) in its Annual Report.