

CORPORATE GOVERNANCE GUIDELINES

DELMON POULTRY COMPANY BSC

FOREWORD:

Corporate governance is an internal system that encompasses polices, processes, people, and which makes sure the needs of shareholders and other stakeholders are met in full. This will be accomplished by directing and controlling managing activities using good business practices, objectivity, accountability and, of course, integrity.

Effective corporate governance structure is derived by strong legislative requirements, Corporate Culture of the organization, commitment of the board and senior management towards the corporate governance framework and approach of company to adhere to the code as integrity program rather than as compliance program.

Effective Corporate Governance program cannot only act as savior for the protection of rights of shareholders and connected stakeholders but can play pivotal role in the control, governance and growth of the company.

PURPOSE:

This document is formulated in the observance of the Corporate Governance Code 2010 issued by the Ministry of industry and commerce and the Central Bank of Bahrain and the objective of this guideline is to describe the norms, rules and recommended practices to enable the company to comply with the requirements of Corporate Governance Code and to implement the code both in letter and spirit.

BRIEF OF THE CORPORATE GOVERNANCE CODE IN KINGDOM OF BAHRAIN:

In response to the need to improve corporate governance practices, the National Steering Committee on Corporate Governance was created under the auspices of the Ministry of Industry and Commerce and the Central Bank of Bahrain to legislate the Corporate Governance Code to move Bahrain forward in reaching its objectives of establishing best practice corporate governance principles in Bahrain, and providing protection for investors and other company stakeholders.

Corporate Governance Code supplements the Company Law. It does not replace the Company Law but is intended to further that Law's objectives and to provide a help in understanding, complying with, monitoring performance under and ensuring fair disclosure under that Law.

Disclosure and transparency are underlying principles of this Code. One cannot rely on market monitoring alone to guarantee adequate compliance with the Code. Thus the Code looks to a combined monitoring system relying on the board, the company's shareholders and other bodies and mechanisms including all stakeholders.

The Code states eight fundamental principles of corporate governance, each of which is followed by one or more numbered directives for applying the Principle. These Principles and directives are broad and they should be complied by every company. Each principle contains a number of recommendations which are the implementation tools for the Code. The stipulated principles are:

✓ PRINCIPLE 1:

The company shall be headed by an effective, collegial and informed board.

✓ PRINCIPLE 2:

The directors and officers shall have full loyalty to the company.

✓ PRINCIPLE 3:

The board shall have rigorous controls for financial audit, internal control and Compliance with law.

✓ PRINCIPLE 4:

The company shall have rigorous procedures for Appointment, training and evaluation of the board.

✓ PRINCIPLE 5:

The company shall remunerate directors and officers fairly and responsibly.

✓ PRINCIPLE 6:

The board shall establish a clear and efficient management structure.

✓ PRINCIPLE 7:

The board shall communicate with shareholders and encourage their participation.

✓ PRINCIPLE 8:

Company shall disclose its corporate governance.

THE “COMPLY” OR “EXPLAIN” APPROACH:

This code encompasses the **“comply or explain approach”**. According to this Company is required to comply with the provisions of this code. However if the Board of Directors are of the view that certain provision of the Code are not relevant or don't take account of a company's specific circumstances such as the size and nature of its business, its shareholding structure, activities, or its exposure to risks and management structure and it concludes that non-compliance to such provisions is justified, the company may explain the reason for not complying with such provisions and such explanation will be presumed as compliance of the code with the proviso that the company is in compliance with rest of the provisions of Code.

In any event, every company should be expected either to comply with this Code or explain its non-compliance.

At each annual shareholders meeting the board shall report on the company's compliance with Corporate Governance Code, and explain the extent if any to which it has varied them while adapting its Corporate Governance Guidelines or believes that any variance or non-compliance was justified.

PRINCIPLE ONE (1) : THE COMPANY SHALL BE HEADED BY AN EFFECTIVE, COLLEGIAL AND INFORMED BOARD:

Key Points:

- ✓ The Board of directors shall presume the responsibility for loyalty and care to the company and play an active role in the governance, growth and control of the company by devising business strategies, monitoring conflict of interest, limiting abusive related party transaction, transforming the process of preparing Financial Statements and ensuring equitable treatment for all shareholders.
- ✓ The board of directors should be vibrant enough so as to take active part in the managerial, strategic and governance issues of the company.
- ✓ There has to be continual communication among the Board members.
- ✓ The Board should be of appropriate size so as to run the affairs in efficient and effective manner.
- ✓ The Board should be kept fully aware of the issues affecting the operations of company.
- ✓ The structure of the Board of Directors should be diversified enough to encourage independent decision making and lesser concentration of power with any particular corner.
- ✓ There has to be comprehensive line of communication between Board members and senior management of the company.
- ✓ Directors should be facilitated by the company in achieving their individual assigned responsibilities and the responsibilities of the board as a whole as they could contribute effectively.
- ✓ The board is ultimately responsible for the governance of the company but to achieve the stated objectives efficiently board should form committees to assist the board.
- ✓ The Board should evolve the process for evaluation of the performance Board itself, Committees of Board and each Board Member.

Deliberations:

- ✓ Each board member shall be issued formal appointment letter containing specific responsibilities and the role he / she is required to perform in the control, growth and governance of the company.
- ✓ Chairman of the board assisted by management team shall make sure that each new board member should go under a proper induction program so as to enable the board member to understand and embrace his role in the light of the code. For this purpose company shall devise and adopt a proper induction program for new inductees to the Board.
- ✓ The board shall adopt a formal board charter specifying matters which are reserved to it, which shall include but not limited to the specific requirements and responsibilities of directors.

- ✓ The chairman of the Board will take an active lead in promoting the environment of mutual trust, open discussion, constructive dissent and support for decisions.
- ✓ Minutes of the Board and Committee meetings will be forwarded to the Board Members within 15 days of the meeting.
- ✓ Notice along with Agenda and Explanatory Material will be forwarded to each Board and Committee member at least 5 days prior to meeting.
- ✓ The Board shall constitute of nine members of which half should be non-executive directors and one third of the Board members should be independent directors, attribute of being independent and non-executive will be tested in accordance with stipulated criteria of the Corporate Governance Code.
- ✓ Each Board meeting shall be preceded / followed by the session of independent directors.
- ✓ The Board shall devise the policy for participation of senior management in Board Meeting with the proviso that confidential matters will not be discussed in the presence of senior management.
- ✓ The board will devise committees for special responsibilities so as to assist the board in that regard, board will revise the structure, role and mandate of the company if required currently following committees will work under their respective charter in order to assist the board in the area of assigned responsibility.
 - Audit Committee.
 - Nominating and Remunerating Committee.
 - Corporate Governance Compliance Committee
 - Executive Committee.
- ✓ The board will devise a committee to evaluate the performance of Board, respective Committees and each Board member and will report to the shareholders at each Annual General Meeting about such evaluation.

PRINCIPLE TWO (2) : THE DIRECTORS AND OFFICERS SHALL HAVE FULL LOYALTY TO THE COMPANY:

Key Points:

- ✓ Each Director should understand and endorse the duty of accountability and loyalty to the shareholder and to Company.
- ✓ Directors should not use company property for their personal benefit.
- ✓ Directors should avoid conflict of interest and must not compete with the business and must not take business opportunities for their personal interest.
- ✓ Directors should observe high standard of conduct, confidentiality and ethical business practices.

Deliberations:

- ✓ The board of Directors shall devise code of conduct for directors and each board member will endorse the code before being appointed to the Board. All the new inductees will be given a brief of such code in their induction program. Code so developed shall include the dos and don'ts for Director.
- ✓ Board of Directors shall devise, adopt and implement ‘conflict of interest’ policy which shall include all the provisions so as to ensure the transparency of transactions constituting conflict of interest with respect to directors and officers.

- ✓ The board shall establish formal procedure for the periodic disclosure and updating information by each director and officer on his actual and potential conflict of interest.
- ✓ Company secretary will keep the record of all such transactions affecting the proposition of the conflict of interest. Such record shall contain all necessary details as the terms, nature of interest and basis of approvals for such transactions.
- ✓ Company shall disclose to shareholders in Annual report about the details of the transactions involving the conflict of interest and that the same were approved in accordance with the provision of relevant regulatory requirements and policy of the company in this regard. Such disclosure shall also contain exceptions, if any.

PRINCIPLE (3) : THE BOARD SHALL HAVE RIGOROUS CONTROLS FOR FINANCIAL AUDIT, INTERNAL CONTROL AND COMPLIANCE WITH LAW:

Key Points:

- ✓ The Board should establish an Audit committee of at least three members, majority of its members should be independent directors, to
 - Review the company's accounting and financial practices,
 - Review the integrity of the company's financial and internal controls and financial statements,
 - Review the company's compliance with legal requirements,
 - Recommend the appointment, compensation and oversight of the company's external auditor.
 - Recommend the appointment of the internal auditor.
- ✓ Audit Committee established by the Board should function in efficient and effective manner.
- ✓ Management accountability for financial statements should be enhanced so as to increase the reliability and transparency of Financial Statements.

Deliberations:

- ✓ The Board shall constitute an Audit Committee of at least three members, majority of which shall be independent directors including the Chairman and the majority of members shall be financial literate.
- ✓ Audit Committee shall be governed by the Audit Committee Charter and relevant laws and pronouncements.
- ✓ Audit Committee Charter shall prescribe the roles and responsibilities of the Audit committee and outline the structure, reporting lines and frequency of the meetings of Audit Committee.
- ✓ Chairman of the Audit Committee shall ensure that Committee functions in accordance with the stipulated pronouncements of the Corporate Governance Code and is effective enough to meet the underlined objectives.
- ✓ Chairman of the committee along with the members of the committee shall review the role of the audit committee in line with the Corporate Governance Code and Audit Committee Charter
- ✓ The board will review the Audit Committee charter from time to time and amendments if required shall be made accordingly.

- ✓ The Board will formulate and adopt a whistleblower program under the supervision of Audit Committee; the program will lay down the procedures and reporting lines for communication of possible improprieties in financial or legal matters.
- ✓ Committee shall meet as many times as required but not less than four times in year and its meetings shall be scheduled in conjunction with the Board Meetings.
- ✓ Proceedings of the Audit Committee shall be appropriately minuted and the Chairman of the Committee shall keep the board aware of its proceedings.
- ✓ The minutes of the Meeting shall be forwarded to the Board members within 15 days of the meeting.
- ✓ The Committee shall assess its performance in the spirit of the Corporate Governance Code and shall report about its performance evaluation to the board on annual basis.

PRINCIPLE (4) : THE COMPANY SHALL HAVE RIGOROUS PROCEDURES FOR APPOINTMENT, TRAINING AND EVALUATION OF THE BOARD:

Key Points:

- ✓ The Board shall establish a Nominating Committee of at least three members which shall:
 - Identify the persons qualified to become members of the Board and Senior Management.
 - Make recommendations to the board for probable candidate of the Board, if required, the inclusion of the same on the agenda of next Annual General Meeting.
- ✓ Nominating Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority is independent directors and the chairman is an independent director.
- ✓ The Nominating Committee shall adopt a formal written charter which shall provide a governing pattern for Nominating Committee.
- ✓ The chairman of the board shall ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of his term.
- ✓ The company should devise a program for continued professional development of the Board of Directors.

Deliberations:

- ✓ The Board of directors shall constitute Nominating Committee of at least three members as independent directors.
- ✓ The Committee shall be headed by the chairman who shall be the independent director.
- ✓ The Board shall formulate a charter for the operation, governance and control of the company, the same shall be adopted by the Nominating Committee so as to ensure that the committee accomplishes the role assigned to the Nominating Committee by Corporate Governance Code.
- ✓ Each proposal by the board to the shareholders for election or re-election of a director shall be accompanied by a recommendation from the board, a summary of the advice of the Nominating Committee, and the specific information required under the Code.

- ✓ The chairman of the board shall confirm to shareholders when proposing re-election of a director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role.
- ✓ Any term beyond six years (e.g. two three-year terms) for a director will be subject to particular rigorous review, and will take into account the need for progressive refreshing of the board.
- ✓ Chairman of the board assisted by management team shall make sure that each new board member should go under a proper induction program so as to enable the board member to understand and embrace his role in the light of the code. For this purpose company shall devise and adopt a proper induction program for new inductees to the Board.
- ✓ Chairman of the board supported by management shall take measures to ensure continued professional development of the Board members as so enable them to contribute to the objectives of company effectively.
- ✓ The Committee shall meet as many times as necessary but not less than two times a year. The meetings of the Committee shall be scheduled in conjunction with Board meetings.
- ✓ Proceedings of the Committee shall be appropriately minuted and the Chairman of the Committee shall keep the board aware of its proceedings.
- ✓ The minutes of the Meeting shall be forwarded to the Board members within 15 days of the meeting.
- ✓ The Committee shall assess its performance in the spirit of the Corporate Governance Code and shall report about its performance evaluation to the board on annual basis.
- ✓ The committee may be merged with Remuneration and Corporate Governance Committee.

PRINCIPLE (5) : THE COMPANY SHALL REMUNERATED DIRECTORS AND OFFICERS FAIRLY AND RESPONSIBLY:

Key Points:

- ✓ The Board shall establish a Remuneration Committee of at least three members which shall:
 - Review the company's remuneration policies for the board of directors and senior management.
 - Make recommendations regarding remuneration policies and amounts for specific persons to the whole board.
 - Remunerate board members based on their attendance and performance.
- ✓ Remuneration Committee should include only independent directors or, alternatively, only non-executive directors of whom a majority is independent directors and the chairman is an independent director.
- ✓ The Remuneration Committee should adopt a formal written charter which shall provide a governing pattern for Remuneration Committee.
- ✓ The committee should ensure that effective structured remuneration package is in place in the company identifying executive directors, non executive directors, senior management and employees separately.

- ✓ The committee should ensure that remuneration package for directors and management is good enough to retain and attract the people and efficient enough to avoid unnecessary wastage of resources.
- ✓ All performance based incentives should be awarded under approved written objective performance standards.

Deliberations:

- ✓ The Board of directors shall constitute Remuneration Committee of at least three members as independent directors.
- ✓ The Board shall formulate a charter for the operation governance and control of the company, the same shall be adopted by the Nominating Committee so as to ensure that the committee accomplishes the role assigned to the Nominating Committee by Corporate Governance Code.
- ✓ The Board of directors shall make sure that the Remuneration Committee functions in accordance with the charter and relevant legal pronouncements.
- ✓ Board of Directors shall formulate comprehensive Remuneration program in line with the requirements of Corporate Governance Code.
- ✓ Remuneration program so formulated shall be approved by the Board of Directors and the performance based incentives shall also be approved Shareholders of the Company.
- ✓ The Committee shall review the Remuneration Program annually and shall review the performance of the Board of Directors and the members of management to make changes to the remuneration program if required.
- ✓ The Committee shall meet as many times as necessary but not less than two times a year the meetings of the Committee shall be scheduled in conjunction with Board meetings.
- ✓ Proceedings of the Committee shall be appropriately minuted and the Chairman of the Committee shall keep the board aware of its proceedings.
- ✓ The minutes of the Meeting shall be forwarded to the Board members within 15 days of the meeting.
- ✓ The Committee shall assess its performance in the spirit of the Corporate Governance Code and shall report about its performance evaluation to the board on annual basis.
- ✓ The committee may be merged with Nominating and Corporate Governance Committee.

PRINCIPLE (6) : THE BOARD SHALL ESTABLISH A CLEAR AND EFFICIENT MANAGEMENT STRUCTURE:

Key Points:

- ✓ The Board should establish an effective management structure which will report to and work under the supervision of Board of Directors.
- ✓ The management structure should include following Senior Management at a minimum:
 - General Manager,
 - Financial Resources Manager,
 - Corporate Secretary,
 - Internal Auditor.

- ✓ The Board supported by management should devise the roles and responsibilities of the senior management and senior officer and identify the reporting lines for the same.
- ✓ The company and General Manager should assume major responsibilities in management governance and Growth of the Company.
- ✓ The board should set the authority limits for management including the monetary limits especially for General Manager.
- ✓ The board should formulate succession planning for senior management of the company including the General Manager.

Deliberations:

- ✓ The Board shall devise efficient and effective management structure which shall include the appointment of all necessary personals including Human Resources Manager, Financial Resources Manager, Corporate Secretary and Internal Auditor.
- ✓ The Board shall make sure that proper Authority matrix notifying monetary limits is in place and the same is being properly followed, such Authority matrix shall identify the authorities of General Manager separately.
- ✓ The Board shall make sure that proper job descriptions or terms of reference where are in place for all key positions of the Management, and the respective Terms of Reference are being followed.
- ✓ The Board shall make sure that proper succession plan for General Manager is in place.

PRINCIPLE (7) : THE BOARD SHALL COMMUNICATE WITH SHAREHOLDERS AND ENCOURAGE THEIR PARTICIPATION:

Key Points:

The Company should comply with following requirements in relation to Annual General Meeting.

Requirements related to Notice:

- ✓ Notices of meetings must be honest, accurate and not misleading.
- ✓ Notice of the meeting should clearly state and, where necessary, explain the nature of the business of the meeting.
- ✓ Notice of meetings should encourage shareholders to participate by proxy and should refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution.
- ✓ Notices should ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting.
- ✓ In notices of meetings at which directors are to be elected and number of candidates exceeds the number of available seats or in case of removal of directors, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes, and the notice of the meeting should fairly represent the views of candidates.

Requirements related to conduct / proceedings of the Meeting:

- ✓ Meetings should be held during normal business hours and at a place convenient for the greatest number of shareholders to attend.
- ✓ At each annual shareholders meeting, Board should report to the shareholders on the annual evaluation of its performance and the performance of each committee and each individual Director.
- ✓ At each annual shareholders meeting the board shall report on the company's compliance with its Corporate Governance guidelines and Corporate Governance Code, and explain the extent if any to which it has varied them or believes that any variance or noncompliance was justified.
- ✓ In meetings where directors are to be elected or removed the board should ensure that each person is voted on separately, so that the shareholders can evaluate each person individually,
- ✓ The board should propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not "bundled" together,
- ✓ The chairman of the meeting should encourage questions from shareholders, including questions regarding the company's corporate governance guidelines,
- ✓ Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.
- ✓ The chairman and other directors shall actively encourage the controlling shareholders to make a considered use of their position and to fully respect the rights of minority shareholders.
- ✓ External Auditors should attend the Annual General Meeting.

Deliberations:

- ✓ The company should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting.
- ✓ The Board shall make sure that there is documented guideline for the Notice and Proceedings of the meetings and the meetings are held in accordance with such guidelines.
- ✓ In particular the Company should ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility.
- ✓ The company should require its outside auditor to attend the annual shareholders meeting and be available to answer shareholders questions concerning the conduct and conclusions of the audit.
- ✓ The minutes of the meeting must be made available to Shareholders upon their request as soon as possible but not later than 30 days after the meeting.

PRINCIPLE (8) : THE COMPANY SHALL DISCLOSURE ITS CORPORATE GOVERNANCE:

Key Points:

- ✓ The Board should adopt written Corporate Governance guideline.
- ✓ The Board should ensure that specific disclosures required by the Code are disclosed in Annual Report and on website as and when required.
- ✓ The Board should establish Corporate Governance Committee of at least three independent Directors which shall be responsible for developing and updating company's Corporate Governance Framework.

Deliberations:

- ✓ The Board of Directors shall constitute Corporate Governance Committee of at least three members as independent directors.
- ✓ The Board shall formulate a charter for the operation governance and control of the company, the same shall be adopted by the Corporate Governance Committee so as to ensure that the committee accomplishes the role assigned to it by the Committee.
- ✓ The Board of Directors shall make sure that Corporate Governance Committee functions in accordance with the charter and relevant legal pronouncements.
- ✓ Committee shall elect one of its members as their Chairman.
- ✓ The Committee shall meet as many times as necessary but not less than two times a year the meetings of the Committee shall be scheduled in conjunction with Board meetings.
- ✓ Proceedings of the Committee shall be appropriately minuted and the Chairman of the Committee shall keep the board aware of its proceedings.
- ✓ The minutes of the Meeting shall be forwarded to the Board members within 15 days of the meeting.
- ✓ The Committee shall assess its performance in the spirit of the Corporate Governance Code and shall report about its performance evaluation to the board on annual basis.
- ✓ The committee may be merged with Nominating Remuneration and Performance Evaluation Committee.
- ✓ The Board shall formulate a program for disclosures in the Annual Report, Notice and conduct of Annual General Meeting to make sure that all respective things meet the requirement of Corporate Governance Code.