

ANNUAL REPORT OF THE DIRECTORS

Your Board of Directors takes pleasure in presenting the Ninth Annual Report of the Board on the affairs of the Company and the Group together with the Consolidated Financial Statements as at 31st March 2012.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company, which are to invest in and provide administrative services to the numerous companies representing the Hemas Group, remain in place.

A detailed review of the Group's activities and the development of its business, together with an indication of likely future developments, the main trends and factors likely to affect future performance and a description of the principal risks and uncertainties it faces, are set out on pages 14 to 50 which constitute the Sector reviews and Risk Management review and form part of this Report. Information about environmental matters, employees, social and community issues is provided in the Company's Sustainability Report available at 24 to 37.

SUBSIDIARIES AND JOINT VENTURES

Subsidiaries and Associates within the group are engaged in diverse activities as described on page 119 of this Annual Report.

PROFIT AND APPROPRIATIONS

Details of the results and appropriations are given below:

	Group		Company	
	2012 Rs.'000	2011 Rs.'000	2012 Rs.'000	2011 Rs.'000
Turnover	21,409,596	18,067,489	373,654	304,851
Profit and Appropriations				
Profit earned before Interest and taxes	1,824,631	1,867,082	565,940	399,825
Interest paid	(249,718)	(297,737)	(75,085)	(52,136)
Profit before tax	1,574,913	1,569,345	490,855	347,689
Taxation	(260,307)	(214,154)	(22,271)	(9,369)
Profit after tax	1,314,606	1,355,191	468,584	338,320
Profit attributable to minority share holders	(105,548)	(145,032)		
Profit attributable to parent	1,209,058	1,210,159	468,584	338,320
Other adjustments	(116,643)	(10,613)	(629)	
Amount available for appropriations	1,092,415	1,199,546	467,955	338,320
Appropriations				
Final dividend -2010/2011	(128,010)	(229,406)	(128,010)	(229,406)
Interim dividend -2011/2012	(128,823)	(127,448)	(128,823)	(127,448)
Final Dividend recommended	(128,823)	(128,010)	(128,823)	(128,010)
Balance brought forward from previous years	6,359,604	5,516,911	4,077,851	4,096,385
Balance carried forward to next year	7,066,363	6,231,594	4,160,150	3,949,841

DIVIDENDS

The Directors recommend that a final dividend of Rs. 128,822,655, equivalent to Rs. 0.25 per ordinary share (2010/11 Rs. 128,010,155, equivalent to Rs 0.25 per ordinary share) be paid on 10th July 2012 to those shareholders on the register of members at the close of business on ex-dividend date. An interim dividend of Rs. 128,822,655/-, equivalent to Rs. 0.25 per ordinary share was paid on 22nd November 2011, making a total for the year of Rs. 257,645,310 (2010/11 Rs. 255,457,810).

Prior to recommending the dividend and in accordance with Section 56(2) and (3) of the Companies' Act No. 7 of 2007, the Board of Directors signed a Certificate stating that, in their opinion, based on available information, the Company will satisfy the solvency test immediately after the distribution is made and have obtained a certificate from the Auditors in terms of Section 57 of the Companies' Act. Shareholder approval will be sought on the day of the AGM, to declare and pay the dividend of Rs. 0.25 per share.

POST BALANCE SHEET EVENTS

No material events have taken place subsequent to the date of the Balance Sheet which require an adjustment to or disclosure in the Financial statements other than those described in note 33 to the Accounts.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those applied during the previous year.

A summary of the significant accounting policies adopted by the Company and the Group are given in the Notes to the financial statements on page 75.

In the process of applying accounting policies, the Company has made assessments and assumptions apart from those involving estimations, which have a significant effect on the amounts recognized in the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Total carrying amount of Property, Plant and Equipment of the Group as at the date of the Balance sheet was Rs. 10,288,807 (2011 Rs. 7,457,601)

During the year under review, the Group acquired Property, Plant and Equipment to the aggregate value of Rs. 1,580,502 (2011 Rs. 1,095,346)

INVESTMENT PROPERTIES

The fair value of investment property of the Company and the Group as at the year end was Rs. 331,500 and Rs. 474,685 respectively. (2011 Rs. 309,965 and Rs. 1,309,965)

INVESTMENTS

Details of investments of the Company in its subsidiaries, joint ventures and in equity securities are set out on pages 91 to 94 of this Report.

RESERVES

Total Reserves of the Company and the Group as at the Balance Sheet date amounted to Rs. 257,032 and Rs. 1,995,770 respectively. (2011 Rs. 257,032 and Rs. 1,045,976)

Movement in Reserves during the year is given in detail in the "Statement of Changes in Equity" on pages 72 to 73.

DIRECTORS

Names and biographical details of the Directors who held Office at the date of this report appear on pages 56 to 57.

APPOINTMENTS/RESIGNATIONS

Mr. R Gopalakrishnan was appointed to the directorate on 1st April 2012, to replace Mr. Divyaroop Bhatnagar, who resigned with effect

from 31st March 2012. An announcement in this regard was made to the Colombo Stock Exchange in accordance with the requirements of the Exchange and a press notice released to the public thereafter.

Rules about the appointment and replacement of directors are set out in the Articles. Changes to the Articles must be approved by shareholders by passing a special resolution.

RETIREMENT AND RE-ELECTION

In accordance with the 2008 Code of Best Practice, Messrs Imtiaz Esufally and Pradipta Mohapatra, being the directors longest in office will retire at the forthcoming Annual General Meeting of the Company and offer themselves for re-election. A formal evaluation process has been carried out during the course of the year in respect of the directors offering themselves for re-election and their performance continues to be effective and they continue to demonstrate commitment to their roles.

As the Chairman is over 70 years of age, his reappointment is required to be confirmed by the shareholders annually. A resolution seeking his re appointment is set out in the 'Notice of Meeting'.

Mr. R Gopalakrishnan who was appointed in April this year, will retire in terms of Article 72 of the Articles of Association and seek re election, with the unanimous support of the Board.

INDEMNITY

During the financial year ended 31st March 2012, the Company provided indemnities to each of its Directors in accordance with the provisions of the Company's Articles of Association, providing for the indemnification of Directors out of the assets of the Company to the extent permitted by law. These indemnities constitute qualifying third-party indemnities for the purposes of the Companies Act No. 7 of 2007 and remain in force at the date of approval of this Report.

REMUNERATION OF DIRECTORS

The Group's remuneration framework is explained in detail in the Remuneration Committee report appearing on page 51.

The total remuneration of the Directors during the year under review amounted to Rs. 41,973,858 (2010/11 Rs. 36,474,240) Other benefits received are indicated in detail in the notes to the Financial Statements.

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DIRECTORS' INTERESTS AND THE INTEREST REGISTER

The relevant interest of each Director in the share capital of the Company has been notified by the Directors to the Colombo Stock Exchange in accordance with section 7.8 of the Listing Rules and the relevant entries made in the Interest Register accordingly.

Directors' share ownership details appear on page 122 under the caption "Share Information".

BOARD COMMITTEES

The composition of Board and other Committees as at 31st March 2012, are given below:

Audit Committee

Mr. Maithri Wickremesinghe (Chairman)

Mr. Pradipta Mohapatra

Mr. Husein Esufally (by invitation)

Mr. Imtiaz Esufally (by invitation)

Mr. Malinga Arsakularatne (by invitation)

Remuneration Committee

Mr. Lalith De Mel (Chairman)

Mr. Maithri Wickremesinghe

Mr. Husein Esufally (by invitation)

Nominations Committee

Mr. Lalith De Mel (Chairman)

Mr. Pradipta Mohapatra

Mr. Husein Esufally

Other Committees

Board of Management

Mr. Husein Esufally (Chairman)

Mr. Murtaza Esufally

Mr. Imtiaz Esufally

Mr. Malinga Arsakularatne

Mr. Kishan Nanayakkara

Mr. Sanjeewa Samaranyake

Ms. Kasturi Chellaraja Wilson

Mr. Ranil De Silva

Group Operations Committee

Ms. Kasturi Chellaraja Wilson (Chair Person)

Mr. Husein Esufally

Mr. Malinga Arsakularatne

Mr. Kishan Nanayakkara

Mr. Sanjeewa Samaranyake

Mr. Ranil De Silva

Mr. Roy Joseph

Mr. Harith Perera

Ms. Indresh Fernando

Mr. Riad Ameen

Mr. Dimuth De Alwis

SHARE CAPITAL AND CONTROL

Details of the changes in the issued ordinary share capital of the Company during the year are set out in note 15 to the Consolidated Financial Statements. The Issued share capital as at 31st March 2012 was Rs. 1,600,602,534 divided into 515,290,620 shares. (2011 Rs.1,468,425,034/- divided into 512,040 620 shares)

The rights attached to the Company's ordinary shares in addition to those conferred on their holders by law, are set out in the Company's Articles of Association (the "Articles"), a copy of which can be obtained on request from the Company Secretaries. The Articles contain certain restrictions on the transfer of ordinary shares and on the exercise of voting rights attached to them, including where the Company has exercised its right to prohibit transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with the Companies Act No. 7 of 2007.

SHARE INFORMATION

Information relating to the composition and distribution of shareholders of the Company as at 31st March 2012 is given on pages 120 to 122 of this Report.

The percentage of shares held by the public was 28.51% (2011 - 28.05%).

SUBSTANTIAL SHAREHOLDINGS

At 31st March 2012, the Company had been notified, pursuant to the Disclosure and Transparency Rules of the Colombo Stock Exchange, of the following significant voting rights in its ordinary share capital:

Shareholder	No of Shares
A Z Holdings (Pvt) Ltd	90,762,875
Saraz Investments (Pvt) Ltd	86,396,035
Blueberry Investments (Pvt) Ltd	85,781,250
Amagroup (Pvt) Ltd	85,780,665
Mr. I A H Esufally	6,132,500
Mr. H N Esufally	5,795,205
Mr. M A H Esufally	5,655,000
Mr. A N Esufally	1,992,085

RELATED PARTY TRANSACTIONS

Disclosures pertaining to related party transactions appear on page 116 whilst Directors' interest in Contracts with the Company are disclosed on pages 54 to 55.

No other transaction of significance had taken place that requires disclosure in the report.

EMPLOYEE SHARE INCENTIVE SCHEMES

The Company's employee share incentive schemes contain provisions whereby, upon a change of control of the Company, outstanding options and awards would vest and become exercisable either in part or in full, at the discretion of the Grantee. Where shares are held in trust, under a Trust Deed, the Trustees have the discretion to vote or abstain from voting.

SHARE-BASED PLANS

The Remuneration Committee is responsible for reviewing recommendations with respect to issues or grants under the

Company's share-based plans. Directors approve issues or grants under the plans only after being satisfied that this is in accordance with the terms of shareholders' approval.

EMPLOYEE SHARE PLAN

Details pertaining to the share options granted between the years 2003 and 2008, options exercised, shares cancelled and outstanding as at the date of this report are tabulated below.

In the years 2003 and 2006, two employee share option schemes were set up by the Company wherein 4,168,699 ordinary shares in the Company were made available to the employees. However, in view of the depressed stock market conditions, these schemes failed to achieve the desired results.

A share ownership scheme was established by the Company in 2008, with the intention that maintaining a proprietary interest and a long term commitment amongst the senior directors and executives of the Company and its subsidiaries on a continuing basis would facilitate retention of key personnel and increase shareholder value.

During the year under review, a 3rd and final tranche of 3,250,000 in the Employee Share Ownership scheme established in 2008 (Scheme 111) was issued to the Trustees, Messrs. Jacey Trust Services (Pvt) Ltd, to be held in trust on behalf of the Grantees for a period of 3 years from grant of options. The shares will be transferred to the eligible employees at the end of the vesting period on 24th September 2014.

The vesting period pertaining to the 3,250,000 shares allocated under the ESOS 2008 - Tranche 1, lapsed on 5th February 2012. The Grantees

	Date of Grant	Share Options granted	Share price Rs.	Expiry date	Shares adjusted*	Shares exercised	Shares lapsed	Shares outstanding
Scheme 1 Share Option Scheme 2003.								
Tranche 1	01.04.04	1,558,850	50/-	31.03.06	68737	1,521,974	105,613	
Tranche 2	01.07.04	732,500		31.03.07	126,175	831,175	27,500	
Tranche 3	01.07.05	781,150		31.03.08	195,287	71050	905,387	
Total		3,072,500			390,199	2,424,199	1,038,500	
Scheme 11 Share Option Scheme-2006								
Tranche 1	01.10.06	1,006,000	105/-	31.03.09		86,500	919,500	
Scheme 111 Share Ownership Scheme-2008								
Tranche 1	06.02.09	650,000	62/-	05.08.12	2,600,000*	-		3,250,000
Tranche 11	27.12.10	2,250,000	44/09	26.06.13				2,250,000
Tranche 111	26.09.11	3,250,000	40/67	25.09.14				3,250,000

*Increase in shares consequent to a sub division.

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have time until 5th August 2012 to deal with the shares allocated to them in accordance with the Agreement signed with the Trustees.

FINANCIAL INSTRUMENTS

Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out under "Risk Management" on page 48 and in the notes to the Consolidated Financial Statements.

SUPPLIER PAYMENT POLICY

The Group's operating companies are responsible for agreeing terms and conditions under which business transactions with their suppliers are conducted. Payments to suppliers are made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions. The Company is a holding company and does not have any trade creditors.

CHARITABLE DONATIONS

During the year, the Group, through its subsidiaries, made charitable donations in cash of Rs. 6,108,007 (2010/11 Rs. 9,665,268) Further details of the Group's charitable activities appear in the Sustainability Report on pages 24 to 37.

COLLEAGUES

The Board seeks to instill high standards of customer care and service in the Group and the commitment of every colleague to this business requirement is considered to be critical. The Group has established a framework of communication for colleagues concerning business performance and Company benefits. Group-wide training reinforces the Group's commitment to colleague involvement and development.

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or colleague receives less favourable treatment on the grounds of gender, marital status, race, ethnic origin, religion, disability, sexuality, age, or is disadvantaged by conditions or requirements which cannot be shown to be justified.

The Group applies employment policies which are fair and equitable and which seek to promote entry into and progression within the Group. Appointments are determined solely by application of job criteria, personal ability and competency.

The Group gives full and fair consideration to applications for

employment made by disabled persons, having regard to their particular aptitudes and abilities, wherever suitable opportunities exist and training and career development support are provided, where appropriate. Should a colleague become disabled when working for the Group, efforts are made to continue their employment and retraining is provided, if necessary.

A "whistle-blowing" policy and procedure is in place and has been notified to all colleagues in the group. The policy enables them to report any concerns on matters affecting the Group or their employment, without fear of recrimination, and reduces the risk of things going wrong or of malpractice taking place and remaining unreported. In addition, the Group takes a zero-tolerance approach to matters of discrimination, harassment and bullying in all aspects of its business operations, whether they relate to sex, race, national origin, disability, age, religion or sexual orientation and policies and procedures are also in place for reporting and dealing with these matters.

ENVIRONMENT

The Group recognises the importance of responsible environmental management and its obligation to protect the environment. The Group therefore gives high priority to all environmental matters. Further information appears in the summary Sustainability Report section of the Business Review. More detail is provided in the Company's Sustainability Report available on pages 24 to 37.

CORPORATE GOVERNANCE

The Company has complied with the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The Company's statement on Corporate Governance is included from page 38 to 47 of this Report.

STATUTORY PAYMENTS

The Directors are satisfied that to the best of their knowledge and belief, all dues to the Government and other Statutory Institutions including employee related payments have been either paid or adequately provided for in the financial statements.

INDEPENDENT AUDITORS

Ernst & Young, External Auditors, have expressed their willingness to continue in office in the ensuing year. A Resolution to re appoint them and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting of the Company.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the Directors confirms that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that he has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company for the financial year ended 31st March 2012 will be held on Friday 29th June 2012 at the Auditorium of the Chamber of Commerce, No 50 , Navam Mawatha, Colombo 2 at 3.30 pm. The notice convening the Annual General Meeting appears on page 125 of the Annual Report.

DECLARATION BY DIRECTORS

The Directors declare as follows:

- That the Company has not engaged in any activity which contravenes laws and regulations
- That all material interests in contracts involving the Company have been declared and they have refrained from voting on matters in which they were materially interested
- That the Company has made every endeavor to ensure the equitable treatment of shareholders,
- That they have conducted a review of the internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith.

GOING CONCERN

After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Corporate Governance Code, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the Going Concern basis in preparing the financial statements.

LIKELY DEVELOPMENTS

The Group's objective during the next financial year will be to maximise earnings and investment returns across all the business units in its diversified portfolio.

Signed on behalf of the Board



Lalith de Mel
Chairman



Husein Esufally
CEO



Hemas Corporate Services (Pvt) Ltd
Secretaries
May 25, 2012