

CORPORATE GOVERNANCE

The principles set out in the Code on Corporate Governance remain the primary standards and guidance for governance within Hemas. The Board, its Committees and individual directors apply those principles in all aspects of their work.

The Board's Committees play an essential role in good governance under the chairmanship of Lalith De Mel and Maithri Wickremesinghe respectively, the Remuneration Committee and the Audit Committee carry significant workloads and discharge their responsibilities on behalf of the Board with rigor and diligence. More information about their work is set out in the report that follows and in the Committee Reports. The Nominations and Remuneration Committees, we believe, have made good progress in recent years in succession planning at Board and senior executive level. Their work includes paying attention to the composition of the Board and its Committees, consideration of both planned and unplanned succession scenarios and recognition of the importance of diversity in good governance. For reasons of confidentiality, it is often not possible to report in detail on much of this work.

In this part of the Annual Report, we explain our approach to corporate governance and describe, in general terms, how our business is organised and managed.

Corporate Governance

We have prepared this Annual Report with reference to 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. This Report (together with other sections of this Annual Report) describes how we apply the main principles of good governance in the Corporate Governance Code. We confirm that we have complied throughout the accounting period with the provisions of the Code and with the rules

and regulations of the Colombo Stock Exchange on Corporate Governance.

Leadership

The roles of Chairman and CEO are split. Lalith De Mel, our Non-Executive Chairman, is responsible for leadership of the Board. Our CEO, Husein Esufally, leads the Board of Management (BOM) and has executive responsibility for running our business. The Board comprises six Non-Executive Directors, four of whom including the Chairman are considered independent and two Executive Directors.

All Directors are collectively responsible for our long-term success. In addition, the Non-Executive Directors are responsible for exercising independent, objective judgment in respect of Board decisions and for scrutinising and challenging the actions of executive management.

The Board runs an annual strategy review process. The CEO, the CFO and the BOM take the lead in developing our strategy, which is then reviewed, constructively challenged and approved by the Board.

There are three principal Board Committees: the Audit Committee; the Remuneration Committee and the Nominations Committee. The membership and work of these Committees are described below. The Board provides adequate resources to enable each Committee to undertake its duties efficiently and effectively.

Reserved matters and delegation of authority

The Board maintains and periodically reviews a list of matters that are reserved to and can only be approved by the Board. These include: the appointment, termination and remuneration of any director; approval of the Annual budget; any item of fixed capital expenditure or any proposal for the acquisition or disposal of an investment or business which exceeds Rs. 100 million; the raising of capital or

loans by the Company (subject to certain exceptions); the giving of any guarantee in respect of any borrowing of the Company or its subsidiaries and allotting shares of the Company. Matters that have not been expressly reserved for the Board's consensus are either delegated by the Board to its Committees or to the CEO.

The CEO is responsible to the Board for the management, development and performance of our businesses in relation to those matters in respect of which he has been delegated authority from the Board. Although the CEO retains full responsibility for the authority delegated to him by the Board, he has established and chairs the BOM, which is the vehicle through which he exercises certain of that authority in respect of our businesses. The roles of the Board, the Board Committees, the Chairman, the CEO and the BOM are documented, as are the Board's delegated authorities and reserved powers.

Operation of the Board

The Board is responsible for setting our strategy and policies, oversight of risk and corporate governance and also monitors progress towards meeting our objectives and annual plans. The Board discharges these responsibilities through a programme of meetings that includes regular reviews of financial performance and critical business issues, and the formal annual strategy review. The Board also aims to ensure that a good dialogue with our stakeholders takes place and that their issues and concerns are understood and considered.

The Board held six meetings in 2012/13, which includes its annual strategy review day. As part of the business of each Board meeting, the CEO typically submits a progress report on each key business area, giving details of progress against the goals the Board has approved. To ensure that the Board has good visibility of the key operating decisions of the business, members of the BOM routinely

attend Board meetings on a rotational basis and Board members meet other senior executives throughout the year. The Board also receives accounting and other management information about our resources and presentations from internal and external speakers on legal, governance and regulatory developments. The Non-Executive Directors meet without the Executive Directors present to review and discuss any matters that have arisen during the meeting and/or such other matters as may appear to the Non-Executive Directors to be relevant in properly discharging their duty to act independently.

The Nominations Committee and where appropriate, the full Board, regularly review the composition of the Board and the status of succession to both senior executive management and Board-level positions. Directors have regular contact with and access to succession candidates for senior executive management positions.

The Board aims to maintain a balance in terms of the range of experience and skills of individual Board members, which includes relevant international business, financial experience, as well as appropriate regulatory knowledge.

The biographies of Board members set out on pages 50 and 51 give more information about current directors in this respect.

The Board views nationality and cultural diversity among Board members as important considerations when reviewing the composition of the Board and seek Board members of the highest calibre and with the necessary experience and skills to meet the needs of the Company and its shareholders.

Independence of the Non-Executive Directors

During 2012/13, the Board considered the independence of each Non-Executive

Director for the purposes of the Code on Corporate Governance and the Corporate Governance Listing Standards of the CSE (Listing Rules). The Board considers that two of the Non-Executive Directors are independent.

The Board has reached consensus that the chairman Mr. Lalith De Mel and Mr. Maithri Wickremesinghe shall be treated as independent, although having served on the directorate of the Company for over 9 years.

Conflicts of interest

The Articles enable the directors to authorize any situation in which a director has an interest that conflicts or has the potential to conflict with the Company's interests and which would otherwise be a breach of the director's duty, under section 192 of the Companies Act 2007. The Board has a formal system in place for directors to declare such situations to be considered for authorization by those directors who have no interest in the matter being considered. In deciding whether to authorize a situation, the non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Situations considered by the Board and authorisations given are recorded in the Board minutes and in a register of Interest in contracts maintained by the Company Secretary and reviewed annually by the Board. The Board considers that this system continues to operate effectively.

Appointments to the Board

The Nominations Committee section on page 46 gives information about the appointment process for new directors. Newly appointed directors are provided with comprehensive documentation containing information about the Group and their role as Non-Executive Directors.

They also typically attend tailored induction programmes that take account of their individual skills and experience.

Directors' induction and ongoing development

To ensure that directors have the requisite knowledge and understanding to enable them to challenge effectively, we provide them a personalised approach to induction, training and development.

Our Board receives regular updates on the views of our institutional shareholders and stakeholders. Our Board openly seeks the views of our shareholders.

Time commitment

Our expectation is that Non-Executive Directors should be prepared to commit the necessary time to the Group's business.

On occasions when a director is unavoidably absent from a Board or Board Committee meeting, for example, through illness, or where a meeting clashes with his existing commitments, he still receives and reviews the papers for the meeting and is typically expected to provide verbal or written input ahead of the meeting, usually through the Chairman of the Board or the Chairman of the Board Committee, so that his views are made known and considered at the meeting.

The Company Secretary is responsible to the Chairman for ensuring that all Board and Board Committee meetings are properly conducted, that the directors receive appropriate information prior to meetings to enable them to make an effective contribution and that governance requirements are considered and implemented. The Directors are also able to obtain independent legal advice at the expense of the Company, as necessary, in their capacity as directors.

The Company maintained a Directors' and Officers' liability insurance cover

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throughout 2012/13. The Company has also entered into a deed of indemnity in favour of each Board member. These deeds of indemnity are still in force and provide that the Company shall indemnify the Directors to the fullest extent permitted by law and the Articles, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company or any of its subsidiaries. This is in line with current market practice and helps us attract and retain high-quality, skilled directors.

Performance evaluation

During the year, the Board conducted the annual evaluation of its own performance and that of its Committees. The 2012/13 evaluation involved a series of questionnaires to be completed by each Board member. A draft report on the findings prepared by the Company Secretary was discussed with the Chairman. The final report was circulated to the full Board and discussed at the Board meeting held in February. The evaluation covered a range of topics, including: the composition of the Board; the effectiveness of its strategic oversight; Board members' involvement in the affairs of the Company; decision making and time management; the nature and quality of the information and general support provided to the Board; its approach to risk management and oversight of internal controls; and succession planning and how effectively it prioritises matters. The review concluded that the Board operates effectively and in an open manner. Board members have a good level of involvement in matters between Board meetings. The points to be addressed arising from the review include further improvements in the use of the Board's time in terms of Board meeting arrangements and how agenda items are scheduled and approached; consideration of a short strategic update during the year between the annual strategy day in March and minor improvements to the information provided

Board and Board Committee meeting attendance in 2012/13

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Mr. J.C.L. De Mel	6/6		6/6	4/4
Mr. H.E. Esufally	6/6	4/4*	6/6	4/4
Mr. A.N. Esufally	6/6			
Mr. I.A.H. Esufally	6/6	4/4		
Mr. M.E. Wickremesinghe	6/6	4/4	5/6	
Mr. M.A.H. Esufally	5/6			
Mr. P.K. Mohapatra	6/6	4/4		4/4
Mr. R. Gopalakrishnan	4/6			

*By invitation

to Board members in terms of content and format.

Re-election of Directors

In accordance with Article 84 of the Articles of Association of the Company and in compliance with the Code, one third of the directors retire at each AGM and may offer themselves for re-election by shareholders. The names of the directors retiring this year are set out in the Report of the Directors on page 56.

Accountability

Risk management and internal control

The Non-Executive Directors have various responsibilities concerning the integrity of financial information, internal controls and risk management. The Board has overall responsibility for our system of internal controls and risk management policies and is also responsible for reviewing their effectiveness. During the year, the directors have continued to review the effectiveness of our system of controls, risk management and our high-level internal control processes. These reviews have included an assessment of internal controls, and in particular, financial, operational and compliance controls and risk management and their effectiveness, supported by management assurance of the maintenance of controls reports as well as the external auditor

on matters identified in the course of its statutory audit work.

Underpinning these reviews is a 'Quarterly affirmation statement on Risk Management, Internal Controls and Compliance' process by which responsible managers confirm the adequacy of their systems of internal financial and non-financial controls, their compliance with Group policies and relevant laws and regulations (including the industry's regulatory requirements), and that they have reported any control weaknesses. The internal control framework has been set in place and continues to operate up to the date of the approval of this Annual Report. The directors believe that the Group maintains an effective, embedded system of internal controls and in the view of the directors, no significant deficiencies have been identified in the system. Further information about the ways in which we manage our business risks is set out in the Risk section from page 41 to 43 which also contains a list of the principal risks and uncertainties that we face.

Code of Conduct

Our Code of Conduct (the Code), aptly titled "Hemas Way" which is available on our website, www.hemas.com, applies to all directors, officers, full-time, part-time, and temporary staff at all levels.

Mandatory guidelines set out by Group Finance complements the Code. It applies to the CEO, the CFO, the Group's principal accounting officers and all finance function employees. This reinforces the importance of the integrity of the Group's Financial Statements, the reliability of the accounting records on which they are based and the robustness of the relevant controls and processes.

Trading in Company Shares

The Share Trading Policy provides guidance and rules for directors, executives and employees in relation to the purchase and sale of Company securities. The policy is designed to maintain the awareness of officers of the Company as to the requirements of the law in relation to dealing in Company securities and the significance to investor confidence of ensuring appropriate and proper behaviour of Company officers and employees. Specific requirements under the policy provide restrictions on the time periods during which dealings in Company securities can be undertaken and notification and approval processes for transactions.

Relations with shareholders

In our financial and business reporting to shareholders and other interested parties by means of quarterly, half-yearly and annual reports, we aim to present a balanced and understandable assessment of our strategy, financial position and prospects. We make information about the Group available to shareholders through a range of media, including a fully integrated corporate website, www.hemas.com, containing a wide range of data of interest to institutional and private investors. We consider our website to be an important means of communication with our shareholders.

We have frequent discussions with institutional shareholders on a range of issues. These include individual meetings with some of our largest institutional

shareholders to seek their views. Board members are kept informed of any issues and receive regular reports and presentations from executive management in order to assist them to develop an understanding of major shareholders' views about the Group.

We also respond to individual *ad hoc* requests for discussions from institutional shareholders and analysts. Our Investor Relations team acts as the main point of contact for investors throughout the year. All shareholders, including private investors, have an opportunity at the AGM to put questions to members of the Board about our operation and performance. Formal notification of the AGM is sent to shareholders at least 15 working days in advance. The Chairmen of the Board Committees ordinarily attend the AGM to answer questions raised by shareholders.

Audit Committee

The members of the Audit Committee are Maithri Wickremesinghe (Chairman), Pradipta Mohapatra and Imtiaz Esufally. They are all Non-Executive Directors. The Board considers both Maithri Wickremesinghe and Pradipta Mohapatra to be independent under the Code of best Practice on Corporate Governance and under the general guidance and specific criteria of the Listing Rules concerning the composition of Audit Committees. For the purposes of the Corporate Governance Code, the Board remains satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

The core terms of reference of the Audit Committee include reviewing and reporting to the Board on:

- Matters relating to the audit plans of the external auditor.
- Our overall framework for internal control over financial reporting and for other internal controls and processes.

- Our overall framework for risk management, particularly financial risks.
- Our accounting policies and practices.
- Our annual and quarterly financial reporting, including the critical estimates and judgments contained in our reporting.

The Audit Committee is responsible for notifying the Board of any significant concerns of the external auditor, arising from their audit work, any matters that may materially affect or impair the independence of the external auditor, any significant deficiencies or material weaknesses in the design or operation of our internal control over financial reporting or other internal controls, and any serious issues of non-compliance. It oversees the establishment, implementation and maintenance of our Code of Conduct and other related policies. It monitors the Company's response to letters requesting information and investigations initiated by regulatory and governmental authorities such as the SEC and the CSE pertaining to matters within the remit of the Audit Committee's work. It has established procedures for the receipt and handling of complaints concerning accounting or audit matters. It recommends to the Board the appointment of the external auditor, subject to the approval of the Company's shareholders at a general meeting.

Shareholders in a general meeting authorise the Directors to fix the remuneration of the External Auditor. The Audit Committee reviews and recommends the appointment and dismissal of the External Auditor.

The Audit Committee held four scheduled meetings in the year under review. The individual attendance record of members of the Audit Committee is set out in the Board and Board Committee meeting attendance table on page 36.

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Following each Audit Committee meeting, the Chairman of the Audit Committee reports to the Board on the principal matters covered at the meeting and minutes of the meetings are circulated to all Board members.

There was no change in our internal control over financial reporting that occurred during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. More information on the work of the Audit Committee is given on page 45.

Remuneration Committee

The principal role of the Remuneration Committee is to consider and set, on behalf of the Board, the remuneration (including compensation payments) of Executive Directors and other senior executives. No director is involved in deciding his own remuneration. Detailed information on the role and responsibilities of the Committee is set out in the Remuneration Committee Report on page 44.

Nomination Committee

The role and responsibilities of the Nomination Committee is set out in detail on page 46 of this report.

The Nomination Committee met four times in 2012/13. The individual attendance record of its members is set out in the Board and Board Committee meeting attendance table on page 36.

The Nomination Committee's terms of reference are available on our website, www.hemas.com.

Corporate Governance requirements

The Board continues to believe that the Group has a sound Corporate Governance framework, good processes for the accurate and timely reporting of its financial position and results of operations, and an effective and robust system of internal controls.

The Directors' assessment of the effectiveness of the internal control over financial reporting is set out in the 'Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements' section in the Annual Report on page 62.

We are required to disclose any significant ways in which our corporate governance practices differ from those followed by other companies under the Listing Rules. In addition, we must comply fully with the provisions of the Listing Rules relating to the composition, responsibilities and operation of audit committees and remuneration committees. We have reviewed the corporate governance practices required to be followed by companies under the Listing Rules and our corporate governance practices are generally consistent with those standards.

Business organisation

Board of Management (BOM)

The CEO has established and chairs the BOM. The BOM normally meets once a month to consider and decide major business issues, or as otherwise required by business needs. Typically, it also reviews, in advance of submission to the Board, those matters that are to be submitted to the Board for review and decision.

In addition to the CEO, the BOM's members are: the CFO, the Advisor to CEO, the CPO and the Heads of the Power, Leisure, Transportation and Healthcare Sectors. The Company Secretary acts as secretary to the BOM.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Annual Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant

audit information and to establish that the Company's auditors are aware of that information.

Going concern accounting basis

Information on the business environment in which we operate, including the factors underpinning the industry's future growth prospects, are included in the Financial and Sector reviews from page 12 to 25.

The financial position of the Group, our cash flows, liquidity position and borrowing facilities are described in the Financial Review from page 12 to 15. In addition, Note 32 to the Financial Statements from page 127 to 129 include our objectives, policies and processes for managing our capital, our financial risk management objectives, details of our financial instruments and our exposures to credit, market and liquidity risk. Further details of our borrowings and cash balances are included in Notes 22 and 27 to the Financial Statements on pages 112 and 118 respectively.

The Directors have a reasonable expectation that we have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this Annual Report and the Financial Statements.

Summary disclosures pertaining to Corporate Governance Practices

CSE Rule No.	Applicable Rule	Requirement	Status of compliance	Reference to Annual Report
7.10.1.	Non Executive Directors(NEDs)	Two or at least one third of the total number of Directors should be NEDs.	√	Corporate Governance Report
7.10.2 (a)	Independent Directors	Two or one third of NEDs (whichever is higher) should be independent.	√	Corporate Governance Report
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/ non-independence in the prescribed format	√	Corporate Governance Report
7.10.3(a) and (b)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report.	√	Corporate Governance Report
	Disclosure relating to Directors	The basis for determination of independence of NEDs, if criteria for independence is not met.	√	Corporate Governance Report
7.10.3(c)	Brief Resume of each Director in the Annual Report	A brief resume of each Director should be included in the Annual Report, including his area of expertise.	√	Corporate Governance Report
7.10.4	Criteria for defining "independence"	Requirements for fulfilling criteria.	√	Corporate Governance Report
Rules relating to Remuneration Committees				
7.10.5(a)	Composition of Remuneration Committee	The Committee shall Comprise of Non-Executive Directors, a majority of whom shall be independent. The Chairman of the Committee shall be a Non-Executive Director.	√	Corporate Governance Report
7.10.5(b)	Disclosure of the functions of the Remuneration Committee	The Committee shall recommend the remuneration payable to the Executive directors and Chief executive officer or equivalent role.	√	Corporate Governance Report.

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CSE Rule No.	Applicable Rule	Requirement	Status of compliance	Reference to Annual Report
7.10.5 (c)	Disclosure in the Annual Report	The Report should include the names of the Remuneration committee members, a statement of Remuneration Policy and the aggregate remuneration paid to Executive and Non - Executive Directors.	√	Corporate Governance report, the Annual Report of the Directors and the Remuneration Committee report.
Rules relating to Audit Committees				
7.10.6.(a)	Composition of Audit Committee	Shall Comprise NEDs, a majority of who shall be independent. The Chairman of the Committee shall be a Non-Executive Director. The Chairman or a member should be a member of a recognised professional accounting body.	√	Corporate Governance report, the Annual Report of the Directors and the Audit Committee report.
7.10.6. (b)	Functions of the Audit Committee	*Overseeing the preparation, presentation and adequacy of the disclosures in the financial statements in accordance with the SLAS. *Overseeing compliance with financial reporting related regulations and requirements. *Overseeing the processes to ensure that internal controls and risk management are adequate. *Assessing the independence and performance of the external auditors. *Recommending to the board the appointment, re-appointment and removal of the external auditors and approving their remuneration and terms of engagement.	√	Corporate Governance report, and the Audit Committee report.
7.10.6.(c)	Disclosure in the Annual Report	The names of the members of the Audit Committee. The basis of determination of their independence. A report of the Audit Committee as setting out the manner of compliance with their functions.	√	Annual Report of the Directors and Audit Committee report.