

ANNUAL REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2013. The Business and Financial Reviews and the Corporate Governance Statement form part of this Report.

Principal Activity (Section 168 (1) (a))

The principal activity of the Company is that of a holding company. Its subsidiaries and related companies provide a broad range of services, details of which can be found in the Sector reviews from pages 16 to 25.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in Note 14, 15 and 16 to the parent company financial statements.

Review of business and future developments

A review of the business and likely future developments of the Group are given in the Chief Executive Officer's Review, the Business Reviews and the Financial Review. These sections form part of and are incorporated by reference within this Directors' report.

Results and dividends (Section 168 (b))

The Financial Statements of the Company and the Group are presented from pages 64 to 133. They have been completed and signed in accordance with the Statutes.

The consolidated income statement shows a profit for the financial year of Rs. 1,934Mn (2011/12: Rs. 1,261Mn).

An interim dividend of Rs.0.30 per ordinary share was paid on 3rd December 2012 to shareholders. The directors recommend a final dividend for the year of Rs.0.45 per ordinary share which will be payable on 9th July 2013 to shareholders registered as at 1st July 2013. The total dividend for the financial year will then amount to

Rs.0.75 per ordinary share (2011/12: Rs.0.50).

Prior to recommending the final 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 final dividend of Rs.0.45 per share.

Financial instruments

Information about the use of financial instruments by the Company and its subsidiaries is given in Note 17 to the financial statements and in the Risk Management section.

Post-balance sheet events

The directors are not aware of any significant post-balance sheet event that requires disclosure in the financial statements other than those disclosed in Note 29 to the financial statements.

Donations (Section 168 (g))

The Group's approach with respect to charitable donations and the amounts donated are detailed in Note 06 to the Financial Statements.

Supplier payment policy

The Company does not impose a formal code of payment practice on its subsidiaries. However, the Group's policy is to try to create relationships with its suppliers such that they trust us and want to do business with us. In selecting external suppliers we use competitive processes that are fair and transparent, and designed to maximize value and quality of service for our clients and ourselves.

Statutory payments

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

Directors (Section 168 (h))

The names of the directors at the date of this report and their biographical details are given in the Board of Directors section on page 50.

There were no changes to the Board during the year.

Interests Register (Section 168 (e))

The Company maintains an Interests Register and a general notice of disclosures made by the directors has been entered in it during the year under review. The directors confirm that they have declared their interest in transactions with the Company as required by Section 192 (1) and (2) of the Companies Act No. 7 of 2007.

The interests of the directors in the shares of the Company are disclosed on page 48 of the Annual Report.

Conflicts of Interest

In accordance with the Companies Act No. 7 of 2007, we have established a robust process requiring directors to disclose proposed outside business interests before any are entered into. This enables prior assessment of any conflict or potential conflict of interest and any impact on time commitment.

Confirmation of independence

The Company has received from each of the Non-Executive Independent Directors an annual confirmation of independence pursuant to Rule 7.10.2 of the CSE's Listing Rules.

Directors' indemnities

A qualifying third party indemnity (QTPI) as permitted by the Articles of Association and section 218 of the Companies Act No. 7 of 2007, has been granted by the Company to each of its directors. Under the QTPI, the Company undertakes to indemnify each director against liability to third parties (excluding criminal and regulatory penalties) and to pay directors' costs as incurred, provided that they are reimbursed to the Company if the director is convicted or, in an action that is brought by the Company, judgment is given against the director. Directors resigning from the Board continue to have the benefit of the QTPI for potential liability to third parties that occurred prior to their resignation.

Appointment and replacement of directors

The appointment of directors of the Company is governed by its Articles of Association, the Corporate Governance Code, the Companies Act and related legislation.

The Company is required to have no fewer than two and no more than 10 directors. Directors may be appointed by the Company by ordinary resolution or by a resolution of the Board. A director appointed by the Board holds office until the following annual general meeting but is then eligible for re-appointment.

The Articles of Association provide that, at every annual general meeting, any director who held office at the time of two preceding annual general meetings and who did not retire at either of them must retire and may offer himself for re-election. At the annual general meeting at which a director retires, shareholders can pass an ordinary resolution to re-elect the director or to elect some other eligible person in his place. The Corporate Governance Code provides for the re-election of directors once every three years.

The only people who can be elected as directors at an annual general meeting are: (i) directors retiring at the meeting; (ii) anyone recommended by the directors; and (iii) anyone nominated by a shareholder. The nominating shareholder must be entitled to vote at the meeting. He must deliver to the Company special Notice stating that he intends to nominate another person for election along with the written consent of that person to be elected. These documents must be delivered to the Company not less than twenty eight days before the day of the meeting.

The Company may, by ordinary resolution, remove any director before the expiration of his term of office. A director automatically stops being a director if: (i) he resigns; (ii) he offers to resign and the Company accepts his offer; (iii) all of the other directors pass a resolution or sign a written notice requiring his resignation; (iv) he is or has been suffering from mental or physical ill health and the directors pass a resolution removing him from office; (v) he is absent without the permission of the Board for a continuous period of six months and the directors pass a resolution removing him from office; (vi) he becomes bankrupt or makes a composition with his creditors generally; (vii) he is prohibited by law from being a director; or (viii) he ceases to be a director under legislation or is removed pursuant to the Articles.

Re-election of directors

In accordance with the Articles of Association of the Company and in compliance with the Code on Corporate Governance, Messrs. Husein Esufally and Murtaza Esufally who have been longest in office, will retire and being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

The Chairman, Mr. Lalith De Mel, who is over 70 years of age retires as per section 210 of the Companies' Act No. 7 of 2007 and will seek re-appointment with the unanimous consent of the directors.

Directors' remuneration and benefits (Section 168 (f))

Details of the aggregate remuneration and benefits received by the directors during the year under review are disclosed in Note 33.2 to the financial statements.

Board Sub-Committees

The Board of Directors have formed three mandatory sub committees in accordance with the Code on Corporate Governance and the rules of the Colombo Stock Exchange, namely the Audit, Remuneration and Nominations Committees. The roles and responsibilities of these committees are given elsewhere in the Annual Report.

In addition to the above mandatory board sub-committees, the following committees have also been set up which reviews group performance and provides oversight of Group affairs:-

Board of Management

Husein Esufally - *CEO*
Murtaza Esufally - *Chairman of Hemas Hospitals (Pvt) Ltd and Hemas Pharmaceuticals (Pvt) Ltd*
Malinga Arsakularatne - *CFO*
Steven Enderby - *Advisor to CEO - M&A / Growth Strategy*
Kishan Nanayakkara - *MD Power Sector*
Sanjeewa Samaranayake - *MD Hemas Pharmaceuticals (Pvt) Ltd*
Kasturi Chellaraja Wilson - *MD Transportation Sector*
Ranil De Silva - *MD Leisure Sector*
Roy Joseph - *MD FMCG Sector*
Chandima Cooray - *CPO*

Group Operating Committee

Harith Perera - *MD Diethelm Travel Lanka Ltd*
Riad Ameen - *Legal Consultant*
Dimuth de Alwis - *Group HR Director*
Indresh Puvimanasinghe Fernando - *Director Finance Leisure Sector*
Linus Jeganathan - *Director Projects Hospitals Sector*
Trihan Perera - *Director Business Strategy*
Peter D'Almeida - *MD N*able (Pvt) Ltd*

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The Group Operating Committee also includes Husein Esufally, Malinga Arsakularatne, Steven Enderby, Kishan Nanayakkara, Sanjeewa Samaranyake, Kasturi Chellaraja Wilson, Ranil De Silva Roy Joseph and Chandima Cooray.

Share capital and share-based plans

Details of the Stated capital of the Company, together with details of movements in the Company's issued share capital during the year, are shown in Note 20 to the financial statements.

The Company has one class of share capital, divided into ordinary shares that carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a shareholding, the transfer of shares or voting rights, which are governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights, with the exception of an ESOS Agreement entered into with Jacey Trust Services (Pvt) Ltd, in 2008, whereby 5,500,000 scheme shares are held in trust for and on behalf of eligible employees.

The Company did not implement an employee share scheme during the year under review.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The Company has not purchased, or created any charges over its own shares in the year under review.

Substantial Shareholdings

At 31 March 2013 the Company had been notified of the following substantial interests of 3% or more in its ordinary shares, in accordance with Rule 7.6 of the CSE Rules:-

| Shareholder | Number of shares | % |
|---------------------------------|------------------|-------|
| A Z Holdings (Pvt) Ltd | 90,762,875 | 17.61 |
| Saraz Investments (Pvt) Ltd | 86,396,035 | 16.67 |
| Blueberry Investments (Pvt) Ltd | 85,781,250 | 16.65 |
| Amagroup (Pvt) Ltd | 85,780,665 | 16.65 |
| Employees Provident Fund | 27,259,122 | 5.29 |

Details of the 20 largest shareholders of the Company, their percentage holding and the percentage of shares held by the public can be found on page 135 of the Annual Report.

Sufficiency of Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange based on the information publicly available to the Company and within the knowledge of the directors.

Loan Capital

Details of the loan capital of the Company and its subsidiaries are set out in Note 22 to the financial statements.

Fixed Assets

Details of additions/disposals to fixed assets are presented in Note 10 to the financial statements.

Significant contracts and agreements

At no time during the year did any director hold a material interest in any contracts of significance with the Company or any of its subsidiary undertakings. The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company.

Accounting Policies (Section 168(d))

The Company and the Group have adopted the new Sri Lanka Accounting Standards (SLFRS/LKAS) and have prepared the financial statements in accordance with the SLFRS/LKAS effective 1st April 2012. For consistency in reporting however, the comparative figures have been presented.

The significant policies adopted in the preparation of the financial statements of the Company and the Group are set out in Note 02 to the financial statements on page 70 of this Report

Internal Control

The effectiveness of our internal control system is reviewed regularly by the Board, its committees, the Board of Management and Group Internal Audit. The Audit

Details of the Employee Share Ownership Scheme 2008:

| | Date of Grant | Shares allotted | Price per share | Date of expiry | Shares adjusted | Adjusted price | Shares exercised | Shares forfeited | Shares outstanding |
|-------------|---------------|-----------------|-----------------|----------------|-----------------|----------------|------------------|------------------|--------------------|
| Tranche 1 | 06.02.09 | 650,000 | 62.00 | 05.02.12 | 2,600,000 | 12.40 | 3,000,000 | 250,000 | nil |
| Tranche 11 | 27.12.10 | 2,250,000 | 44.09 | 26.12.13 | | | | | 2,250,000 |
| Tranche 111 | 26.09.11 | 3,250,000 | 40.67 | 25.09.14 | | | | | 3,250,000 |

Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 March 2013 and reported on its review to the Board. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit.

Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

Group Internal Audit reports regularly to the Audit Committee and to the Group Chief Executive Officer. The findings of all adverse audits are reported to the Audit Committee, the Chairman and to the Group Chief Executive Officer where immediate corrective action is required.

The Board Audit Committee has responsibility for overseeing the management of the Company's fundamental prudential risks as well as reviewing the effectiveness of the Company's risk management framework. The Audit Committee monitors the integrity of the Company's financial reporting, compliance and internal control environment.

The Risk review describes the Group's risk management structure. Our business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The performance of the Group's businesses is reported regularly to senior line management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

Employment policies

The Group has developed employment policies that meet local conditions and requirements. These policies are based on the best traditions and practices. See further Risk Management and Sustainability Reports.

Human rights, diversity and disability

The Group has a series of human resources policies that require its employees to act respectfully and responsibly at all times. We are committed to treating each employee and applicant fairly and equitably. Employment decisions are based on merit, experience and potential, without regard to race, nationality, sex, marital status, age, religion or sexual orientation. We are committed to following the applicable labour and employment laws of the State.

Employee involvement

We have employee consultation processes throughout our business in accordance with local laws. In addition, we update all of our employees on a regular basis with Group developments and progress through, internal publications, and face-to-face meetings.

Annual General Meeting

The Annual General Meeting will be held in the Auditorium of the Chamber of Commerce, 50, Navam Mawatha, Colombo 2 on Friday 28th June 2013, at 3.30 pm.

Attached to this report is the formal notice convening the Annual General Meeting.

External Auditor (Sections 168 (c) (i) and (j))

The Report of the Auditors on the financial statements of the Company and the Group appears on page 63 of the Annual Report.

Ernst & Young have expressed their willingness to continue in office and a resolution to re-appoint them as External Auditors to the Company and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

The external auditor has undertaken various non-audit work for us during 2012/13. More information about this work and the audit and non-audit fees that we have paid are set out in Note 06 to the Financial Statements on page 93. The external auditor is not engaged by us to carry out any non-audit work in respect of which it might, in the future, be required to express an audit opinion. As explained more fully in the Audit Committee section from page 45, the Audit Committee has established pre-approval policies and procedures for audit and non-audit work permitted to be carried out by the external auditor and has carefully monitored the objectivity and independence of the external auditor throughout the financial year under review.

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Directors' confirmation

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the director has taken all the 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.

Going Concern

The Group's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Group's financial results, its cash flows, liquidity requirements and borrowing facilities are set out in the Financial Review.

During 2012/13 the Group has continued to generate positive operating cash inflows from operations before tax, acquisitions and capital expenditure.

The main factor contributing to these cash inflows is the continuing management of working capital within the Group. The Board has concluded that the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, indicate that the Group has sufficient funding to operate within the terms of its available facilities.

The Board has considered various alternative operating and funding strategies should these be necessary and is satisfied that a range of actions including cost reduction activities could be adopted if and when necessary.

After making these enquiries, the Board is satisfied that the Group has sufficient resources to continue in operational existence for the foreseeable future and for this reason the going concern basis

continues to be adopted in preparing the financial statements for 2012/13. Furthermore, no material uncertainties related to events or conditions that may cast a significant doubt about the ability of the Group to continue as a going concern have been identified by the directors.

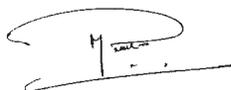
Signed on behalf of the Board,



Lalith De Mel
Chairman



Husein Esufally
CEO



Hemas Corporate Services (Pvt) Ltd
Secretaries

22 May 2013