

## Management Discussion and Analysis

# Risk Management

The effective management of risk has been given increased priority in the Group which is a complex process given the diverse nature of its businesses. This process aims to identify threats that could impact the organization. This involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and taking appropriate actions to address the most likely threats.

Our risk management process is intertwined with the strategic and business planning framework. Each business unit sets its annual objectives and plans after identifying and evaluating the risks associated with its business. The appropriate risk management strategy for the business which may be to accept, or devise procedures to mitigate the risk. Our Shared Services operation which centrally manages group financial processes and accounting plays a

key role in monitoring business performance against budget which is an integral part of our risk management process, together with the group internal audit.

The different types of risk are managed under the following framework:

Risk	Exposure	Mitigating Action
Environmental	<p>The economic environment in which the business operates has an impact on demand in our key FMCG and Healthcare businesses.</p> <p>Tourist arrivals for our Leisure business are largely dependent on a stable security environment.</p> <p>Natural disasters could result in complete or partial closure of businesses units.</p>	<p>De-risk country exposure through penetration into regional markets.</p> <p>Create revenue streams from operations in regional destinations, especially Maldives.</p> <p>Detailed Business Continuity plan in place ensuring disaster preparedness and business continuity.</p>
Business	<p>Global mergers and acquisitions resulting in a loss of Principal/Business partners.</p> <p>Loss of market share due to the entry of a new player and/or increased activity by an existing competitor.</p> <p>Changing consumer habits/trends resulting in a decline in demand</p>	<p>Closely monitor global trends and reduce reliance on any one principal/business partner.</p> <p>Monitor market data and strengthen market position of our Brands/products .</p> <p>Regularly conduct market surveys and maintain close customer contact to spot trends and align product offerings accordingly.</p>
Legal & Regulatory	<p>Non performance of legal obligations and compliance with regulatory requirements</p>	<p>Group and business level legal, internal audit and monitoring function ensures strict compliance with all regulatory requirements and corporate governance framework to monitor adherence.</p>

## Management Discussion and Analysis

### Risk Management

Risk	Exposure	Mitigating Action
Reputation	Negative impact on corporate image as a result of negligence, fraud, poor corporate governance and poor business practices.	Centralized corporate communication procedure to ensure accurate dissemination of information. 'Hemas way' sets out a Code of Ethics for all employees.
Investments	Investments not producing desired outcomes.	Framework for evaluation of new investment established and corporate governance framework to ensure independent monitoring of business performance. Effective project management framework to ensure successful execution to meet financial and time targets.
Operational Risk	Fraud, negligence and bottlenecks due to process inefficiencies.	Internal Audit Function monitored by the group audit committee.
Human Risk	High turnover of staff resulting in loss of tacit knowledge, loss of staff quality, increased recruitment and training cost, leakage of sensitive information and impact on staff morale.	Build a strong employer brand image. Devise effective retention tools. Develop career development programs, mentoring programs and performance based rewards programs.
Foreign Exchange Risk	Loss in profitability due to adverse foreign exchange movements.	Managed at SBU-level taking into consideration expected foreign currency movements and relative pricing of spot market rates and forward market / hedging instruments.
Interest rate risk	Risk of adverse movements in interest rates on both local and foreign currency borrowings.	Centralized management of interest rate exposure based on projected cash inflows & outflows and short to medium term interest rate expectations.

# Corporate Governance

The Board of Hemas Holdings PLC recognizes the importance of and takes responsibility for ensuring that proper standards of Governance are maintained. It understands, supports and has applied the core concepts that underlie corporate governance, complying with a majority of the detailed provisions contained in the Combined Code of 2006 and the Listing Rules of the Colombo Stock Exchange.

The following report explains how the Company is structured and controlled internally and how power is exercised by different groups to ensure that the objectives of the Company are achieved lawfully and ethically.

## A. DIRECTORS

### 1. The Board

*Code Provision:- "Every company should be headed by an effective Board, which is collectively responsible for the success of the company"*

The Board provides entrepreneurial leadership for the company within a framework of prudent and effective risk management. It sets the Company's strategic aims, making certain that the necessary financial and human resources are in place for the Company to meet its objectives. The Board reviews management performance, sets the company's values and standards and makes sure that the obligations to its shareholders are understood and met.

As part of their role in a unitary board, the non-executive directors help to develop proposals on strategy. They scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The Board has five to six scheduled meetings a year, and would meet further if necessary to consider specific matters which it has reserved to itself for decision.

There were six regular meetings and one special meeting held during the year under review.

The following table shows the number of board and committee meetings held during the year and the attendance of individual directors.

	Board	Board (Ad hoc)	Audit Committee	Remuneration Committee
No. of meetings in year	6	1	3	4
Lalith De Mel	6	1		4
Husein Esufally	6	1		
Abbas Esufally	5			
Imtiaz Esufally	6	1		
Murtaza Esufally	6	1		
Divyaroop Bhatnagar	4	1		
Simon Scarff *	1		1	1
Maithri Wickremesinghe	6	1	3	3
Pradipta Mohapatra **	5		2	

\* Resigned on 13th July 2007

\*\* Appointed on 13th July 2007

The schedule of matters specifically reserved for the Board include approval of the Group's long term objectives and strategy, approval of the operating and capital expenditure budgets, oversight of the group's operations, changes to the group structure and capital, financial reporting and control, internal controls, proposals for major capital projects and approval of policies.

The Company has arranged appropriate insurance cover in respect of legal proceedings and other claims against its directors.

The names of the Directors who served during the year under review are disclosed in the Annual Report of the Directors.

### 2. Chairman and Chief Executive

*Code Provision:- "There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business"*

The roles of the Chairman and Chief Executive have been divided between two members providing a better balance of power on the Board. The Chairman's role is pivotal in creating the conditions for the effectiveness of the Board as a whole and the individual directors. The Chief Executive holds responsibility for executive management.

### 3. Board balance and Independence

*Code Provision "The board should include a balance of executive and non executive directors such that no individuals or small group of individuals can dominate the board's decision taking"*

The Board comprised five executive directors and three non executive directors as at 31st March 2008. Your Board believes that it is, at present, of sufficient size to bring a

## Corporate Governance

balance of skills and experience appropriate for the requirements of the business. The directors have a range of skills and experience and each brings an independent judgment and considerable knowledge to the board's discussions.

Messrs Lalith De Mel , Maithri Wickremesinghe and Pradipta Mohapatra non-executive directors on the board, are deemed independent, having met the criteria for independence as defined by the Colombo Stock Exchange. The Board has received from each of the non executive directors a written declaration of their independence. Their names and biographies are set out on page 08.

The Board is aware of other commitments of its non executive directors and is satisfied that these do not conflict with their duties as directors of the Company.

### 4. Appointments to the Board

*Code provision:- "There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board"*

The Board has not established a Nominations Committee for making recommendations on board appointments. Instead, appointments to the Board are made collectively and with the consent of all Board members, based on merit and against objective criteria. The Board is satisfied that plans are in place for orderly succession for appointments to the Board and for senior management so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

### 5. Information and Professional Development

*Code Provision:- "The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. "*

The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Under the direction of the Chairman, the Company Secretary makes certain that good information flows within the board and its committees and between senior management and non-executive directors as well as facilitating induction. The Company Secretary is also responsible for advising the Board through the chairman on all governance matters.

All directors have access to the advise and services of the Company Secretary who is responsible to the board for ensuring that board procedures are complied with.

### 6. Re-election

*Code provision:-" All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance."*

The Articles of Association require that each director seeks re-election every three years, in line with the provisions of the Combined Code. A director who retires by rotation is eligible for re-election by the shareholders at the Annual General Meeting.

Non executive directors are appointed for a three-year term which is renewable at the discretion of the Board, subject to re election and to the provisions of the Companies' Act relating to removal of a director.

## B. REMUNERATION

### Procedure

*Code provisions:- "There should be a transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages"*

The Remuneration Committee has been delegated with responsibility for both developing remuneration policy and for setting the remuneration for all executive directors. They also recommend and monitor the level and structure of remuneration for senior management.

A committee comprising the executive directors including the Chief Executive Officer has been delegated with responsibility of negotiating the remuneration of the non-executive directors.

The members of the Board Remuneration Committee are

Mr. Lalith De Mel (*Chairman*)

Mr. Maithri Wickremesinghe

Both members are independent non executive directors. A description of the work of the remuneration committee and the remuneration policy are set out in the Committee's report to the shareholders.

Details of the cash and non cash benefits received by the executive and non-executive directors are disclosed on page 35.

## C. ACCOUNTABILITY AND AUDIT

### 1. Financial Reporting

The responsibility of the directors in relation to the Financial Statements is set out in the Statement of Directors' Responsibility on page 52.

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### 2. Going Concern

The directors, having made appropriate inquiries, are satisfied that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future. For this reason it continues to adopt the going concern basis when preparing the financial statements.

### 3. Internal Control

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities and avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events. To achieve this, the Board has established a process for the identification, evaluation and management of the risks faced by the group. It should be recognized that such a process can only provide reasonable and not absolute assurance against material misstatement or loss.

The statement on Risk Management describes the group's risk management structure. The group's business is conducted within a developed control framework, which ensures that there are procedures to identify and manage risk including operational risk, liquidity risk, regulatory risk, market risk and the like. The board has established a management structure that clearly defines roles, responsibilities and reporting lines.

The performance of the group's business 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 closely monitored. Financial information is prepared using appropriate accounting policies which are applied consistently. The effectiveness of the group's internal control system is reviewed regularly by the Board, the management and the group internal audit. The Group internal audit monitors compliance with policies and standards and the effectiveness of internal control. It reports regularly to the audit committee and the Chief Executive.

### 4. Audit Committee and Auditors

The audit committee consists of two independent Non-Executive Directors, Mr. Maithri Wickremesinghe (Chairman) and Mr. Pradipta Mohapatra. Their profiles appear on page 8 and 9 of this Report.

The Committee reviews and monitors the integrity of the Company's annual and interim financial statements,

circulars to shareholders and any formal statements relating to the group's financial performance including significant financial judgments contained in them. Ultimate responsibility for the approval of the annual and interim financial statements, however, rests with the Board.

At least once each year, the committee meets with the external and internal auditors without the presence of the management, to discuss issues arising from their respective audits.

In relation to the group's internal audit function, the committee's responsibilities include monitoring and assessing the role and effectiveness of the group internal audit function and resolving issues raised in the internal audit reports.

The Committee's responsibilities in relation to the Group's external audit include:

- considering and making recommendations on the appointment, re-appointment and removal of the external auditors.
- approving the terms of engagement of auditors, nature and scope of the audit and their remuneration.
- reviewing the findings of the audit including any major issues that arose during the course of their audit.
- oversight of the preparation, presentation and adequacy of disclosures in the financial statements in accordance with the Sri Lanka Accounting Standards.
- oversight of the compliance with financial reporting requirements of the Companies' Act and other relevant financial reporting regulations and requirements.
- reviewing the Group's internal controls and risk management systems.

### 5. Auditor Independence and Objectivity

The Company has adopted a policy on the use of non-audit services provided by the Company's external auditors Messrs. Ernst & Young, The Committee's prior approval is required before the Company uses non audit services. Such services will only be used where the Company benefits in a cost effective manner and the auditor maintains the necessary degree of independence and objectivity.

Details of the fees paid to the external auditors for audit and non-audit services are set out in page 34.

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Following table sets out compliance with the rules on Corporate Governance of the Colombo Stock Exchange as at 31st March 2008.

Criteria	Extent of Compliance
Non-Executive directors - The Board of directors shall include at least two non-executive directors or such number of non-executive directors equivalent to one third of the total number of directors	The board of directors comprise eight directors three of whom are non-executive directors.
Independent directors- Two or one third of the non-executive directors appointed to the board, whichever is higher shall be independent.	The three non-executive directors are independent.
Each non-executive director shall be required to submit a signed and dated declaration of independence/non independence against specified criteria.	The three non-executive directors have submitted a declaration confirming their independence.
Disclosure relating to directors independence	The relevant disclosure has been made in the Annual Report of the Directors.
Criteria for defining independence	The non-executive directors have met the criteria for defining independence
Remuneration committee - Composition functions and relevant disclosure	The Annual Report sets out the composition and the policy

### D. RELATIONS WITH SHAREHOLDERS

The Board recognizes the importance of good communication with shareholders and the Annual General Meeting is used as an opportunity to do so.

The Companies' Act requires that the Notice of the Annual General Meeting be posted to Shareholders fifteen (15) working days before the date of the Meeting. The Company aims to achieve this and will strive to give the appropriate notice.

### E. GROUP CODE OF CONDUCT

The Board has established a Group code of conduct relating to the lawful and ethical conduct of business. These requirements are linked to the Group's core values. The Group code of conduct has been communicated to all employees and they are expected to observe high standards of integrity and fair dealing in relation to staff, clients and regulators.

### F. MANAGEMENT STRUCTURE

The Board has delegated primary authority to design and implement policy and achieve strategic objectives to a Board of Management formed during the year to replace the Group Executive Committee. The composition of the Board of Management is stated in page 10.

The Group Operating Committee, formerly referred to as the Group Management Committee, comprising senior Business and Functional Heads meets each quarter, where the performances of the different businesses are reviewed. These meetings are chaired by the Chief Executive Officer. The Committee acts as a common platform for information sharing and best practices.

The group is effectively divided into operating units, each of which are provided oversight by a member of the Board of Management. The performance of these operational units is reviewed on a quarterly basis.

The new governance structure enables senior management to focus on key strategic priorities, and simplifies the decision making process whilst motivating and empowering business heads. It also serves to enforce good governance and accountability.