

REPORT OF THE REMUNERATION COMMITTEE

THE ROLE

The role of the committee is to set the Company's remuneration policy. This policy must support the growth of the business and facilitate the increase in shareholder value. In order to achieve this it must ensure that the Company's remuneration policies will attract, motivate and retain the high quality staff required.

The Charter determines the terms of reference for the Remuneration Committee. It includes the management of the Group's Board and Executive Remuneration Policy and setting the broad parameters of remuneration for senior executives across the group.

The Remuneration Committee of the Board of Directors is responsible for reviewing and recommending compensation arrangements for the directors, the Chief Executive Officer and other key management personnel. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality Board and Management team.

Executives are given the opportunity to receive their base emolument in the form of cash and non-cash benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating additional cost for the Group. The Remuneration Committee obtains independent advice on remuneration strategy and the appropriateness of remuneration packages given trends in comparable companies.

The Committee will continue to consider the ability of the Group to fund changes to remuneration packages in the short and longer term when determining future executive compensation packages and to align remuneration to performance.

REMUNERATION POLICY

The Remuneration Policy aims to ensure that:

- Remuneration is aligned with and supports the Group's business strategies.
- Rewards are competitive in motivating, attracting and retaining executive talent to deliver continued and sustainable growth in total shareholder returns.
- Executives receive a level of reward that reflects the Group's performance and is also commensurate with the executive's performance, contribution and experience.

Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers individual, business unit and overall performance of the Group and market practices. In addition external consultants provide analysis and advice to ensure

key management personnel remuneration is competitive in the market place.

All executive remuneration decisions are made at Board level, upon recommendation by the Remuneration Committee.

NON-EXECUTIVE DIRECTORS' REMUNERATION FRAMEWORK

Non-executive directors do not receive equity based compensation or any performance based remuneration. Directors' fees cover all board activities including membership of board committees. In considering the level of remuneration for non-executive directors, the Remuneration Committee takes into account independently sourced survey data and other information about the level of fees and benefits being paid to non-executive directors by comparable companies and endeavors to ensure having an excellent Board.

STOCK OPTIONS

The Company grants share options as a means of linking employee rewards to creating shareholder value. In 2008, the shareholders approved the granting of 3,000,000 shares as options. As a consequence of a subdivision of shares carried out by the Company in 2010, the number of ESOS shares available for allotment increased to 15,000,000. The options granted have to be held for a minimum period of 3 years. This links in to the objective of motivating and retaining key staff. During the year under review, the 3rd and final tranche of 3,250,000 shares were issued.

Stock Options granted by the Company over the years are given in detail in the Annual Report of the Directors.

The Remuneration Committee determines the guidelines for the issue of options and also the criteria for selecting the persons to whom options will be granted. The Remuneration Committee, in consultation with the CEO, formulates the recommendation to the Board on the grant of options.

INDEPENDENCE OF THE REMUNERATION COMMITTEE

The Remuneration Committee comprises two independent directors, namely:

Mr. J C L De Mel - Chairman

Mr. M E Wickremesinghe

The CEO is invited to participate at meetings of the Committee.



Lalith De Mel

Chairman

May 25, 2012

AUDIT COMMITTEE REPORT

The members of the Audit Committee of your Company are appointed by the Board from amongst the independent non-executive Directors and consists of Maithri Wickremesinghe, Chairman and Pradipta Mohapatra, two directors who qualify as Independent Non-Executive Directors under the standards prescribed by the Colombo Stock Exchange.

The main role and responsibilities of the Audit Committee include;

- (a) exercising oversight responsibilities relating to the quality and integrity of the Company's financial statements and financial reporting process including the preparation, presentation and adequacy of disclosures in the financial statements of the Company in accordance with the Sri Lanka Accounting Standards;
- (b) exercising oversight responsibilities relating to the Company's compliance with financial reporting and information requirements of the Companies Act No. 07 of 2007 and other relevant financial reporting related regulations;
- (c) exercising responsibilities over processes to ensure that the Company's internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards and compliance by the Company with legal and statutory requirements;
- (d) assessing the independence and performance of the Company's external auditors;
- (e) making recommendations to the Board pertaining to appointment, re-appointment and in appropriate circumstances removal of the external auditors;
- (f) considering (if appropriate) the degree of any work undertaken by the external auditor for the group other than the statutory audit; and
- (g) approving the remuneration and terms of engagement of the external auditors.

The internal auditors report to the Audit Committee which meets with the internal auditors both with and without the management present.

The Audit Committee met seven times during the financial year ended 31st March 2012. The Audit Committee invited Mr. Husein Esufally, the CEO, Mr. Imtiaz Esufally, Director, Mr. Malinga Arakularatne CFO and Mr. Prasenna Balachandran Head of Risk Management to attend its meetings although it reserved the right to request any of the individuals to withdraw. The Audit Committee inter-

alia engaged in the following activities during the financial year under review:-

- Review of the un-audited quarterly financial statements and discussion of these financial statements with management.
- Review of the audited financial statements for the year and discussion of those financial statements with the management and external auditors.
- Discussion with the Company's external auditors the results of the external auditors examinations and the judgment of the external auditors concerning the quality as well as the acceptability of the Company's accounting principles.
- Discussion of the management letter issued by the external auditors and monitoring follow up action by the management.
- Discussion with the external auditors of their independence from the Company and the Company's management including a consideration of the compatibility of non-audit services provided by the external auditors with their independence.
- Review of the internal audit plan for the Company and unlisted subsidiaries and monitoring the performance of the internal auditors and their adherence to the internal audit plan.
- Review of the internal audit reports and monitoring follow up action by the management of the Company and its unlisted subsidiaries.
- Commissioning follow up reviews and reviewing the reports.
- Introduced a Whistle Blowing Policy for the group.

The Committee reviewed the effectiveness of the external audit and recommended to the Board the re-appointment of Messrs. Ernst & Young Chartered Accountants as the external auditors of the Company for the ensuing financial year, subject to the approval of the shareholders at the Annual General Meeting.



Maithri Wickremesinghe
Chairman



Pradipta Mohapatra
Director

May 25, 2012

NOMINATIONS COMMITTEE REPORT

A Nominations Committee comprising, two independent directors and the group CEO was established in June 2011. The Terms of Reference of the Committee is as follows:-

- Be responsible for identifying candidates to fill vacancies on the board, as and when they arise and nominate them for approval of the board.
- Before making an appointment evaluate the balance of skills, knowledge and experience on the board and on the basis of this evaluation, prepare a description of the role and capabilities required for the particular appointment.
- Consider candidates for appointment from a wide range of backgrounds.
- Review regularly the structure, size and composition of the board and make recommendations for any changes to the board.
- Ensure that on appointment to the board, Non Executive Directors receive a formal letter of appointment setting out what is expected of them including time commitment and membership of board committees.

The Committee met formally on four occasions during the year to consider and make recommendations on changes necessary to the existing Board of Directors and the composition of the boards of the subsidiaries.

Mr. Divyaroop Bhatnagar, whose term in Office expired on 31st March 2012, resigned from the Board as from that date. Whilst acknowledging the immense contribution made by Mr. Bhatnagar, the Committee recommended the appointment of Mr. R Gopalakrishnan, which recommendation was unanimously accepted by the Board.

The Committee will continue to work closely with the Board in performing their duties and responsibilities effectively.

COMMITTEE MEMBERS:

Mr. J C L De Mel - *Chairman*

Mr. P K Mohapatra

Mr. H E Esufally



Lalith De Mel

Chairman

May 25, 2012

DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Related Party disclosures as required by the Sri Lanka Accounting Standards No. 30 on Related Party Disclosures is detailed in Note 36 to the financial statement. In addition, the Company carried out transactions in the ordinary course of business with entities where the Directors of the Company are Directors of such entities.

Company	Directors	Nature of Transaction	Value	Value
			2012 Rs.'000	2011 Rs.'000
Hemas Manufacturing (Pvt) Ltd.	Mr. H Esufally	Dividend Income	165,600	43,374
		Consultancy Fees	75,394	64,500
		IT Charges	16,745	18,897
		Corporate Services Income	1,965	-
		Rental Income	794	-
		Bank Guarantee Charges	54	437
		Interest Expense	(18,241)	(9,874)
Hemas Pharmaceuticals (Pvt) Ltd.	Mr. H Esufally	Consultancy Fees	123,426	100,000
	Mr. M Esufally	IT Charges	28,261	26,889
		Dividend Income	13,410	43,509
		Interest Income	5,793	15,894
		Rental Income	2,143	-
		Corporate Services Income	350	-
		Bank Guarantee Charges	-	184
		Interest Expense	(1,115)	-
Hemas Hospitals (Pvt) Ltd.	Mr. M Esufally	Interest Income	19,204	12,025
	Mr. H Esufally	IT Charges	4,086	4,074
		Bank Guarantee Charges	1,020	1,028
		Consultancy Fees	245	247
		Corporate Services Income	96	-
		Rental expenses	(540)	-
Hemas Southern Hospitals (Pvt) Ltd.	Mr. M Esufally	IT Charges	952	890
		Bank Guarantee Charges	561	566
		Rental Income	-	227
Hemtours (Pvt) Ltd.	Mr. H Esufally	Interest Income	6,146	5,924
	Mr. A Esufally	Dividend Income	-	6,750
		Rental Expense	(302)	-
Diethem Travels Lanka (Pvt) Ltd.	Mr. A Esufally	IT Charges	4,166	2,830
	Mr. H Esufally	Consultancy Fees	245	247
		Corporate Services Income	119	-
		Interest Income	79	664
		Transport and Accommodation Charges	(2,062)	(1,718)
Serendib Hotels PLC	Deshamanya Lalith De Mel	Interest Income	5,430	2,887
	Mr. H Esufally	Bank Guarantee Charges	1,985	-
	Mr. A Esufally	IT Charges	-	17
		Interest Expense	(589)	(60)
Serendib Leisure Management Ltd	Mr. A Esufally	IT Charges	633	-
		Corporate Services Income	16	-
Forbes Air Services (Pvt) Ltd.	Mr. H Esufally	Consultancy Fees	63,960	53,300
	Mr. A Esufally	Dividend Income	3,902	8,640
	Mr. I Esufally	Rental Income	3,316	-
	Mr. M Esufally	Bank Guarantee Charges	765	-
		IT Charges	675	281
		Corporate Services Income	31	-
		Interest Expense	(14,640)	(19,994)
Hemas Air Services (Pvt) Ltd.	Mr. H Esufally	Consultancy Fees	9,593	8,000
	Mr. I Esufally	IT Charges	1,602	1,585
		Dividend Income	502	3,240
		Corporate Services Income	16	-
		Interest Expense	(4,708)	(4,393)
Hemas Travels (Pvt) Ltd.	Mr. H Esufally	IT Charges	3,647	3,244
	Mr. I Esufally	Dividend Income	1,648	4,230
		Consultancy Fees	990	1,000
		Corporate Services Income	71	-
		Bank Guarantee Charges	36	-
		Air Line Ticket Sales	(7,648)	(7,148)

Company	Directors	Nature of Transaction	Value 2012 Rs.'000	Value 2011 Rs.'000
HIF Logistics (Pvt) Ltd..	Mr. I Esufally	Interest Income	350	1,082
Far Shipping Lanka (Pvt) Ltd.	Mr. I Esufally	Dividend Income	4,764	3,950
		Consultancy Fees	1,565	-
		IT Charges	943	901
		Corporate Services Income	79	-
		Interest Income	-	533
Exchange & Finance Investments Ltd.	Mr. I Esufally Mr. H Esufally	Bank Guarantee Charges	13	-
Hemas Aviation (Pvt) Ltd.	Mr. I Esufally	IT Charges	481	468
		Corporate Services Income	73	-
ACX International (Pvt) Ltd.	Mr. I Esufally	IT Charges	393	3,251
		Corporate Services Income	29	-
		Interest Income	-	182
		Consultancy Fees	-	663
		Courier charges	(7)	(48)
Solas Lanka (Pvt) Ltd	Mr. I Esufally	Consultancy Fees	2,134	-
Skynet worldwide express (Pvt) Ltd	Mr. I Esufally	IT Charges	26	-
		Courier charges	(22)	-
Hellman Worldwide Logistics (Pvt) Ltd.	Mr. I Esufally	IT Charges	26	88
Discover the World Marketing (Pvt) Ltd.	Mr. I Esufally	Dividend Income	528	6
Hemas Power PLC	Mr. H Esufally Mr. I Esufally	Dividend Income	187,800	122,070
		IT Charges	884	717
		Consultancy Fees	306	308
		Corporate Services Income	63	-
		Bank Guarantee Charges	51	51
		Interest Income	-	175
		Interest Expense	(368)	-
Heladhanavi Ltd.	Mr. A Esufally Mr. H Esufally	Bank Guarantee Charges	-	(1,505)
Giddawa Hydro Power (Pvt) Ltd.	Mr. H Esufally	Dividend Income	9,073	2,048
		IT Charges	35	35
		Interest Income	-	53
Peace Haven Resorts Ltd.	Mr. H Esufally Mr. A Esufally	Dividend Income	224	5,630
		Corporate Services Income	122	-
		Interest Expense	(6,932)	(8,248)
Hemas Developments (Pvt) Ltd.	Mr. A Esufally	Dividend Income	19,636	18,000
		Consultancy Fees	245	463
		Corporate Services Income	122	-
		IT Charges	89	69
		Car parking expenses	(932)	-
		Service Charges	(2,060)	-
		Interest Expense	(3,539)	(6,059)
		Rental Expense	(11,537)	-
Vishwa BPO (Pvt) Ltd.	Mr. H Esufally	Dividend Income	22,500	434
		IT Charges	777	756
		Consultancy Fees	735	370
		Corporate Services Income	449	-
		Interest Expense	(524)	(482)
		Shared Services Expenses	(7,626)	(9,031)
Hemas Corporate Services Income (Pvt) Ltd.	Mr. H Esufally	Corporate Services Income	54	-
		Bank Guarantee Charges	13	26
		Corporate Services Expenses	(2,478)	(4,207)
N-able (Pvt) Ltd.	Mr. I Esufally	Interest Income	5,053	4,517
		Rental Income	918	925
		Bank Guarantee Charges	816	-
		Consultancy Fees	122	123
		Corporate Services Income	85	-
		Interest Expense	-	3
		IT equipment and services	(28,169)	-