Hermes Pacific Investments PLC

Corporate Governance

<u>QCA Principles of Corporate Governance:</u>

As an AIM listed company, the company is required to adopt a recognised corporate governance code and disclose any deviations from the chosen code. Hermes Pacific International has decided to adopt the Quoted Companies Alliance ("QCA") code. High standards of Corporate Governance are a key priority of the Board and details of how the Company addresses key governance issues are set out in the Corporate Governance section of this website by reference to the 10 principles of Corporate Governance developed by the QCA.

Deliver Growth:

Principal 1) Establish strategy and business model which promote long-term value for shareholders

The board must be able to express a shared view of the company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.

Compliance:

The Company acts as an investing company focussed on investments in either quoted or unquoted investments principally in South East Asia and other emerging markets that have long term favourable economic prospects. There is a clear focus on making investments in the financial sector, although investments in other sectors will also be considered on their merits.

The Company's strategy is to be achieved by gaining exposure to emerging markets through investment in well established companies with proven business models coupled with strong management teams with a good track record.

Such investments may be made by direct acquisition of an equity interest in a wide-variety of entities including: companies, partnerships, joint ventures and through direct interests in projects. The Company's vision is to invest in and develop its operating businesses to deliver long term, sustainable growth in shareholder value.

Principal 2) Seek to understand and meet shareholder needs and expectations

Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base.

The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.

Compliance:

The Board is very aware of the real need to protect the interests of minority shareholders and balancing these interests with those of the more substantial shareholders.

In exceptional cases a Non-Executive Director may be appointed to represent the interests of a major shareholder where the Board is satisfied that he or she has the requisite experience and is fully aware of his or her fiduciary duty to act in the wider interests of shareholders as a whole.

The Group encourages a good dialogue with shareholders and investors. Certainly, the Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. Details of all shareholder communications are provided on the Group's website in a timely fashion.

The Board holds meetings with larger shareholders as and when required and recognises the Annual General Meeting as an important opportunity to communicate directly with shareholders via an open question and answer session.

The Company lists contact details on its website and on all announcements released via RNS, should shareholders wish to communicate directly with the Company.

Principal 3) Take into account wider stakeholder and social responsibilities and their implications for long-term success

Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations.

Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the company's strategy and business model.

Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.

Compliance:

The Company is focused on achieving long term success in a sustainable fashion whilst also recognising the need to meet its responsibilities to stakeholders including staff, suppliers, customers and the wider society. The Company is committed to the sustainability of every element of its business ranging from the environment to suppliers and from customers right through to the local communities.

The Directors are mindful of the impact that the Company's present and future business activities and investments may have not just on the environment, but also on the communities in which these businesses operate. The environmental impact of the Company's activities and investments would be carefully considered, monitored and maintained by adopting high environmental standards.

Feedback on issues of sustainability from stakeholders is encouraged and the AGM can provide a useful platform for such engagement.

Principal 4) Embed effective risk management, considering both opportunities and threats, throughout the organisation

The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer.

Setting strategy includes determining the extent of exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).

Compliance:

The Board has the responsibility for the overall monitoring of the Company's systems of internal control. This role also encompasses the identification of risks along with the taking the necessary action in order to either prevent, mitigate or seek to manages such risks.

The Board meets at least four times a year. Risks are discussed at each Board meeting where the Directors have a chance to provide their input to assess the severity of such risks to the overall performance of the Company. The Board is seeking to grow the business whilst at the same time ensuring that the Company's activities do not expose the business to significant levels of risk.

In addition, the annual budget setting process provides a highly in-depth process where all areas of the Company's operations both operationally and financially, are examined in great detail. In order to effectively manage risk the Board has established Audit, Remuneration, and Nominations Committees which are outlined below.

Audit Committee – The Audit Committee looks at any matters that concern the financial affairs of the Company as well as the Company's external audit that it believes are necessary. The Committee works to ensure proper monitoring of the adequacy of the Company's internal controls, accounting policies and financial reporting requirements. In addition, the Committee provides a channel by which the Company's external auditors are able to report to the Non-Executive directors. The current Audit Committee consists of John Morton (Chairman)and Haresh Kanabar

Remuneration Committee – The Renumeration Committee is tasked with making recommendations to the Board concerning the remuneration of Directors. In making these recommendations, the Committee makes sure to take into account a variety of factors including: the current level of renumeration for Directors within the industry as well as the differential that exists between Directors and employee remuneration. The current Remuneration Committee consist of Haresh Kanabar (Chairman) and John Morton.

Nomination Committee – The Nomination Committee has been formed to monitor the process and also make recommendations, on all new Board appointments. Certainly, all new Board appointments are based on merit, with all candidates being judged against a number of objective criteria. This process is undertaken with regard for the benefits that come from gaining diversity on the board. The Committee is also responsible for ensuring the re-election of Directors who are retiring by rotation at the AGM along with succession planning. The current Nomination Committee consist of Haresh Kanabar (Chairman) and John Morton

Maintain a Dynamic Management Framework:

Principal 5) Maintain the board as a well-functioning, balanced team led by the chair

The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.

The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement.

The board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.

Directors must commit the time necessary to fulfil their roles.

Compliance:

The Company is controlled by the Board of Directors which is comprised of a Non-Executive Chairman and two Non-Executive Directors. Haresh Kanabar, Non-Executive Chairman, heads up the board and the two Non-Executive Directors are John Berry and John Morton.

Information concerning the important aspects of the Company's operational and financial performance which is provided to Directors on a regular basis, not just ahead of meetings. The minutes of all these meetings are circulated to the Directors for their approval. Importantly, all Directors are encouraged to take independent professional advice to assist in the undertaking of their duties, which is fully-funded at the Company's expense.

The Company is guided by the provisions of the QCA Code in respect of the independence of their Directors. This highlights the overall effectiveness and independence of the contribution made by Directors to the Board in considering their independence. The Code does not determine the independence of a Director based purely on the period of service in isolation. The Non-Executive Chairman and Non-Executive Directors are seen to provide an independent judgement which does not relate to their varying lengths of service. The balance of skills within Board is illustrated by the biographies of the Directors which is included within this website.

There is a well-defined schedule of subject matters that is reserved for the attention of the Board, which is supported in its decision making by the Audit, Remuneration and Nomination Committees.

Principal 6) Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition.

The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board.

As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.

Compliance:

The Nomination Committee determines whether the Directors have the necessary experience and expertise to help the Company achieve its goal of long term sustainable growth is the Nomination Committee. The Nominations Committee is charged with overseeing Board appointments and in turn providing the Board with recommendations on each and every new appointment.

The Nominations Committee is also responsible for ensuring the re-election of Directors who are retiring by rotation at the AGM. This way the Committee can ensure that Directors which are been put up for re-election continue to have the up-to-date experience which is required. The Committee is also tasked with succession planning.

Directors that have been appointed to the Company have been chosen because of the skills and experience they offer. Full biographical details of all Directors are included within this website.

Principal 7) Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.

It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.

Compliance:

The performance of the Board is reviewed and evaluated on an annual basis. The Company seeks to monitors both personal and corporate performance against pre-agreed key performance indicators (KPIs) and detailed financial reports. The Non-Executive Chairman and the two Non-Executive Directors are tasked with the responsibility of assessing and monitoring the performance of each other.

The KPIs which are studied include: underlying pre-tax profit, cash flow, cash generation, return on investment and earnings per share.

The Board considers the need for the periodic refreshing of its membership following the recommendations made by the Nominations Committee. New Directors are appointed when deemed appropriate by the Board. All continuing Directors are required to stand for re-election on a 3 year basis. Succession planning is considered by the Nominations Committee.

Principal 8) Promote a corporate culture that is based on ethical values and behaviours

The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company.

The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company.

The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.

Compliance:

The Board and management conduct themselves ethically at all times and promote a strong corporate culture within the Company, its activities and its investments. The Board is tasked with making sure that such a culture is present in every aspect of the business, including recruitment, nominations, training, engagement and investment.

Principal 9) Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The company should maintain governance structures and processes in line with its corporate culture and appropriate to its:

• size and complexity; and

• capacity, appetite and tolerance for risk.

The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.

Compliance:

The Board is responsible for the governance of the Company, governance being the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of the shareholders, whilst having due regard to the interests of other stakeholders in the Company including, in particular, customers, employees and creditors.

Audit Committee – The Audit Committee looks at any matters that concern the financial affairs of the Group as well as the Group's external audit. The Committee works to ensure proper monitoring of the adequacy of not only the Company's internal controls but also the accounting policies and financial reporting. In addition, the Committee allow provides a channel by which the Group's external auditors are able to report to the Non-Executive Directors. The current Audit Committee consist of John Morton (Chairman) and Haresh Kanabar.

Remuneration Committee – The Renumeration Committee is tasked with making recommendations to the Board concerning the remuneration of Directors. In making these recommendations, the Committee makes sure to take into account a variety of factors including: the current level of renumeration for Directors within the industry as well as the differential that exists between Directors and employee remuneration. The current Remuneration Committee consist of Haresh Kanabar (Chairman) and John Morton.

Nomination Committee – The Nomination Committee has been formed to monitor the process and also make recommendations, on all new Board appointments. Certainly, all new Board appointments are based on merit with all candidates being judged against a number of objective criteria. This process is undertaken with regard for the benefits that come from gaining diversity on the board. The Committee is also responsible for ensuring the re-election of Directors who are retiring by rotation at the AGM along with succession planning. The current Nomination Committee consist of Haresh Kanabar (Chairman) and John Morton.

Build Trust:

Principal 10) Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

A healthy dialogue should exist between the board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company.

In particular, appropriate communication and reporting structures should exist between the board and all constituent parts of its shareholder base. This will assist:

• the communication of shareholders' views to the board; and

• the shareholders' understanding of the unique circumstances and constraints faced by the company.

It should be clear where these communication practices are described (annual report or website).

Compliance:

The Group encourages a good dialogue with shareholders and investors. The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. Details of all shareholder communications are provided on the Group's website in a timely fashion.

The Board holds meetings with larger shareholders as and when required and recognises the Annual General Meeting as an important opportunity to communicate directly with shareholders via an open question and answer session.

The Company lists contact details on its website and on all announcements released via RNS, should shareholders wish to communicate with the Board.

Haresh Kanabar