

Policy on dealing with Related Party Transactions

1. Preamble

The Board of Directors (the "Board") of KMC Speciality Hospitals (India) Limited (the "Company" or "KMCSHL"), acting upon the recommendation of its Directors and Audit Committee (the "Committee"}, has adopted the following policy and procedures with regard to Related Party Transactions as defined below. The Committee will review and may amend this policy from time to time.

This policy will be applicable to the Company. This policy is intended to ensure the proper approval and reporting of transactions between the Company and any of its related parties.

2. Objectives

This policy is framed as per requirement of Section 188 of the Companies Act, 2013 and Clause 49 of the Listing Agreement (including any statutory enactments/ amendments thereof) entered by the Company with the Stock Exchanges. KMCSHL recognizes that Related Party Transactions (as defined below) can present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Company's and its shareholders' best interests. Therefore, this policy regarding the review and approval of Related Party Transactions has been adopted by the Company's Board of Directors in order to set forth procedures under which certain transactions must be reviewed and approved or ratified.

3. Definition

"Arm's Length Transactions" shall mean any transaction carried out between two or more Related Parties as if they are not related to each other so that there is no 'Conflict of Interest'.

"Audit Committee or Committee" means Committee of Board of Directors of the Company constituted under provisions of Listing agreement and Companies Act, 2013

"Associate Company" in relation to another company means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation - For the purposes of the definition of "Associate Company" used herein, "significant influence" will mean control of at least 20% of total share capital, or of business decisions under an agreement.

"Board" means the board of directors of the Company

"Control" is defined as follows:

- i. shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
- ii. As per Section 2(27) of the Companies Act, 2013: shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner;

“**Key Managerial Personnel**” or “**KMP**” shall have the meaning referred to in the Companies Act, 2013 and includes

- (i) the Chief Executive Officer or the Managing Director or the Manager and in their absence the Whole-time director;
- (ii) the company secretary;
- (iii) the Chief Financial Officer; and
- (v) such other officer as may be prescribed;

“**Material Related Party Transaction**” shall have the meaning referred to in the Listing Agreement which states as follows:

“a transaction with a related party shall be considered material if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the company as per the last audited financial statements of the company.”

“**Ordinary Course of Business**” means transactions, that are indispensable, normal, regular and incidental to the conduct of the business, the objects of the Company as stated in the constitutional documents of the Company permits such transactions, there is a past practice and pattern of frequency (not an isolated transaction), has connection with the normal business carried on by the Company”

“**Related Party**” means, a person or entity related to the Company as mentioned below:

- (i) Being a related party under Section 2(76) of the Companies Act, 2013 which are as follows:
 - (a) a director or his relative;
 - (b) a key managerial personnel or his relative;
 - (c) a firm, in which a director, manager or his relative is a partner;
 - (d) a private company in which a director or manager is a member or director;
 - (e) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent. of its paid-up share capital;
 - (f) anybody corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with the advice, directions or instructions of a Director or Manager

- (g) any person on whose advice, directions or instructions a director or manager is accustomed to act
- (h) any company which is:
 - a holding, subsidiary or an associate company of such company; or
 - a subsidiary of a holding company to which it is also a subsidiary
- (i) such other person as may be prescribed

For the purpose of Clause 49 (VII), an entity shall be considered as related to the company if:

- (i) such entity is a related party under Section 2(76) of the Companies Act, 2013; or
- (ii) such entity is a related party under the applicable accounting standards.

or

- (ii) a related party under the applicable accounting standards.

“Related Party Transaction” means

- (i) any transfer of resources, services or obligations between the Company and a Related Party, regardless of whether a price is charged.

A "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract.

- (ii) As per Section 188 of the Companies Act, 2013

- (a) sale, purchase or supply of any goods or materials;
- (b) selling or otherwise disposing of, or buying, property of any kind;
- (c) leasing of property of any kind;
- (d) availing or rendering of any services;
- (e) appointment of any agent for purchase or sale of goods, materials, services or property;
- (f) such related party's appointment to any office or place of profit* in the company, its subsidiary company or associate company; and
- (g) underwriting the subscription of any securities or derivatives thereof, of the company

* For the purposes of the aforementioned transaction contemplated by Section 188 of the Companies Act, 2013, the term **“office or place of profit”** means any office or place:

- where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

- where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

“**Relative**” means relative as defined under the Companies Act, 2013 and includes anyone who is related to another, if:

- i. they are members of a Hindu Undivided Family;
- ii. they are husband and wife
- iii. Father (including step-father)
- iv. Mother (including step-father)
- v. Son (including step-father)
- vi. Son’s wife
- vii. Daughter
- viii. Daughter’s husband
- ix. Brother (including step-brother)
- x. Sister (including step-sister)

4. Identification of Related Party Transactions

- 4.1 Each Director and “KMP” and other Related Party whenever wishes to enter into any transaction shall promptly notify the Audit Committee of any material interest that such person or relative of such person had, has or may have in a Related Party Transaction, by providing all relevant details and documents.
- 4.2 Notice of any Related Party Transaction/s, referred above shall be given well in advance so that the Audit Committee / the Board have adequate time to review the proposed Related Party Transactions.
- 4.3 The Board / Audit Committee shall discuss and determine whether a transaction does, in fact, constitute a Related Party Transaction requiring compliance with this Policy.

5. Prohibitions on Related Party Transactions

- 5.1 All Related Party Transactions including any subsequent modification of transactions of the Company with related parties must be reported to the Audit Committee and referred for approval by the Committee in accordance with this policy.
- 5.2 All Material Related Party Transactions shall require approval of the shareholders through Special Resolution and the Related Parties shall abstain from voting on such resolutions.

- 5.3 Any member of the Audit Committee who has an interest in any Related Party Transactions shall abstain from discussion and voting on the approval of such Related Party Transactions

All Related Party Transactions which are neither in the ordinary course of business nor at arm's length price require Board approval. Further these transaction also require shareholder approval through special resolution if the transaction value exceeds the threshold given under the Companies Act 2013 (hereinafter referred to as "Material Related Party Transactions"). The details of material contracts or arrangements or transactions which are at arm's length basis shall be put up for noting by the Board.

6. Review and approval of Related Party Transactions

Potential Related Party Transactions will be referred to the next meeting of the Audit Committee for review and approval. Any member of the Committee who has a potential interest in any Related Party Transaction will abstain himself / herself from discussion and voting on the approval of that Related Party Transaction.

In case the members of the Audit Committee with no interest in the proposed Related Party Transaction are not to constitute the quorum, such proposed Related Party Transactions shall be referred to the Board of Directors for necessary approvals.

To review a Related Party Transaction, the Committee will be provided with all relevant material information relating to the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters (list of records and supporting documents which are required to be provided to the Committee are Annexed to this policy).

The Audit Committee / Board while considering the proposal to approve a Related Party Transactions, the Audit Committee/ Board shall inter-alia consider the following factors:

- 6.1 Whether the terms of the Related Party Transactions are fair and on "arms length basis" to the Company and would apply on the same basis if the transaction did not involve a Related Party
- 6.2 Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any
- 6.3 Whether the Related Party Transaction would affect the independence of an independent Director
- 6.4 Whether the Related Party Transaction would present an improper conflict of interest for any director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the Director, Executive Officer or other Related Party, the direct or indirect nature of the director's, Key Managerial Personnel's or other Related Party's interest in the transaction, and the ongoing nature of

any proposed relationship and any other factors the Audit Committee / Board deems relevant

- 6.5 Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction
- 6.6 Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company; and
- 6.7 If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for the Board to approve the Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances

Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of Audit Committee or Shareholders:

- (i) Any transaction that involves the providing of compensation to a Director or Key Managerial Personnel in connection with his other duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- (ii) Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.

Any member of the Committee who has an interest in the transaction under discussion will abstain from voting. Upon completion of its review of the transaction, the Committee may determine to permit or to prohibit the Related Party Transaction.

In case there is any conflict between this policy and the applicable laws including clarifications etc. the matter shall be considered in view of the applicable laws including clarifications etc.

In the case of Transactions which are frequent and regular in nature and are in the normal course of business of the Company, the Audit Committee may grant omnibus approval for such transactions, provided that the Audit Committee shall lay down criteria for granting such approval, the Committee shall satisfy itself of the need for such omnibus approval and it is in the interest of the Company, and such omnibus approval shall specify:

- The name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into

- The indicative base price / current contracted price and the formula for variation in the price if any and
- Such other conditions as the Audit Committee may deem fit

Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 crore per transaction. The details of such transaction shall be reported at the next meeting of the Audit Committee for ratification. The Audit Committee shall review, atleast on a quarterly basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approval after the expiry of one year.

7. Approval by Circular Resolution of the Audit Committee

In the event the management determines that it is impractical or undesirable to wait until a next meeting of the Audit Committee to enter into a Related Party Transaction, such transaction may be approved by the Audit Committee by way of circular resolution in accordance with this policy and statutory provisions for the time being in force. Any such approval must be placed before the next Audit committee meeting for noting.

8. Committee / Board to seek details

While reviewing any Related Party Transaction, the Committee and/or the Board shall be at liberty to call for more information/details/advise/opinion from the following persons

- i. Any employee
- ii. Internal Auditor
- iii. Statutory Auditor
- iv. Cost Auditor
- v. Secretarial Auditor
- vi. Legal Advisor
- vii. External Expert/Consultant

9. Determination of Arm Length Price

The arm's length principle and the transfer pricing methodologies prescribed under the Indian Income Tax Act, 1961 ('IT Act') as well as associated guidance on domestic transfer pricing shall be referred to determine arm length price relating to all related party transactions.

10. Transitional Provision

- i. Under the Companies Act 2013

In the event the Company becomes aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Committee. The Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction. The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy, and shall take any such action it deems appropriate.

In any case, where the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Committee has authority to modify or waive any procedural requirements of this Policy.

Contracts entered into under Section 297 of Companies Act, 1956, which already came into effect before the commencement of Section 188 of 2013 Act, will not require fresh approval, till the expiry of original term of such contracts. If any modification in such contract is made on or after 1 April 2014, the requirements under Section 188 will be complied with.

ii. Under the Revised Clause 49

All existing material related party contracts or arrangements, which are likely to continue beyond 31st March 2015, should be placed for approval of the shareholders in the first General Meeting subsequent to 1 October 2014. However, the Company may choose to get such contracts approved by the shareholders even before 1 October 2014

11. Related Party Transaction not approved under this policy

Where any contract or arrangement is entered into, without obtaining the consent of the Audit Committee, Board or approval of shareholders by a Special Resolution in the General Meeting and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board.

12. Disclosure

The Company shall disclose particulars of the contract and arrangement along with the justification for entering into such contracts/arrangements with the Related Parties in the Directors' Report as part of Company's Annual Report. This Policy will also be disseminated in the website of the Company.

The Company shall also disclose the details of all material transactions with Related Parties on a quarterly basis along with the compliance report on corporate governance filed with the Stock Exchanges under clause 49 of the Listing agreement entered into by the Company with the Stock Exchanges.

13. Records to be maintained

The details of contract / arrangement / transaction made under this policy shall be entered in the register as per the prescribed format and the same shall be maintained as per the provisions of the Companies Act, 2013 and Listing Agreement entered with the Stock Exchange.

14. Amendments to the policy

This Policy is formulated based on the provisions of the Companies Act, 2013, and rules made there under and Clause 49 of the Listing Agreement entered with the Stock Exchanges.

This Policy may be amended by the Board at any time and is subject to the provisions of the Companies Act, 2013 and Guidelines issued by the Securities and Exchange Board of India. If any Act / Regulation which makes any of the provisions of this Policy inconsistent with the Act or Regulations, the provisions of the Act or Regulations would prevail over this Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

Any changes or modification on this Policy recommended by the Audit Committee would be placed before the Board for approval.

Date: November 13, 2014
Place: Trichy

Dr Chandrakumar
Managing Director