

leisure

sector operational review

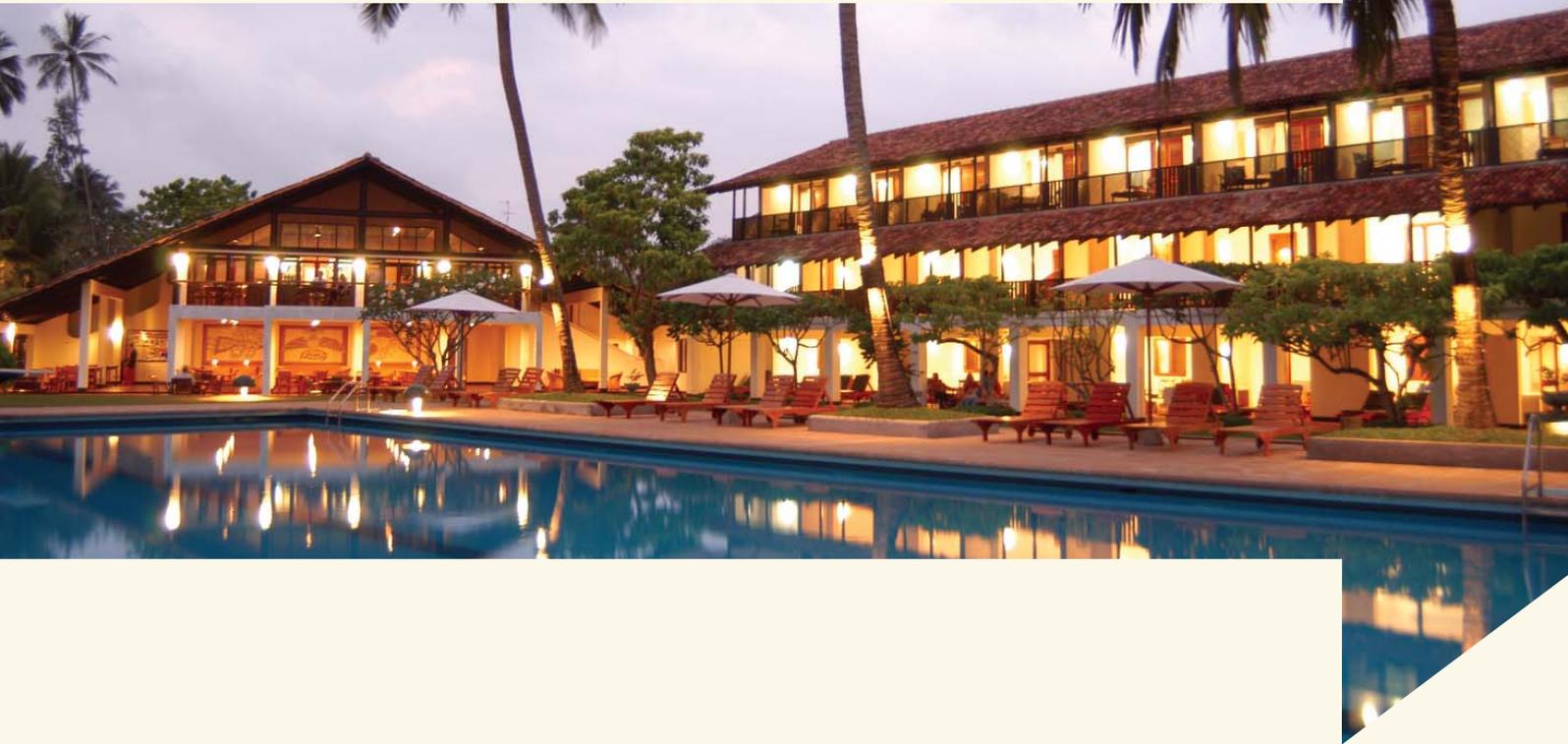
In the Leisure Sector, Hemas is engaged in the businesses of Destination Management, Travel Centre Operations and Ownership & Management of Resort Hotels. Whilst Destination Management and Travel Centre Operations are run by our fully owned subsidiary, Hemtours (Pte) Ltd, we make our presence in the Hotel Industry through Serendib Hotels Limited, in which we have a controlling shareholding.

Post-tsunami recovery in the tourism industry was slower than expected and as a result the first half of the financial year was somewhat lackluster for the entire industry. Resort occupancies in the summer season were far below the usual levels and this had a considerable impact on industry profitability. However, during the latter half of the financial year, industry prospects improved steadily, and the industry made a comeback in the winter season, during which most resorts enjoyed high occupancies. Whilst some of the long-haul markets such as Germany continued to be sluggish, arrivals from the UK grew strongly.



The Sector recorded a turnover of Rs 443Mn and a profit of Rs.38 Mn for the financial year under review. During the year we exited from our investment in Associated Hotels Ltd, with a capital gain of Rs 29Mn.

In Destination Management, Hemtours is aggressively pursuing short-haul markets in the Asian region. 'First Choice', our strategic partner in the UK, and a leading international operator, has commenced a regular charter service to Sri Lanka from this summer in response to the increasing demand for Sri Lanka from the UK market. The role of the Internet in the business of leisure is becoming more and more significant, and we are investing in IT



capabilities to offer sophisticated web-based services to our customers in the near future. This area is expected to become a key revenue earner for the company in the future. Our revenue streams will be further enhanced by the re-entry into the event management sector, where there are high growth prospects. Whilst the local market is a key market segment, we will be targeting foreign markets as well, in view of Sri Lanka's growing reputation as a value for money MICE (meetings, incentives, conventions and exhibitions) destination.

Our three hotels, Hotel Serendib, Club Hotel Dolphin and Hotel Sigiriya performed creditably throughout the year, given the post-tsunami situation. Whilst the hotel industry offers good growth

prospects over the long-term, we have postponed our plans to develop the property in Tangalle in view of the current uncertain outlook. This year our main focus will be to reposition and brand the three existing hotels. The objective here is to enhance shareholder value by improving hotel yields through higher product & service qualities.

The prospects for 2006/07 look promising, and we expect the tourist arrivals and the resort occupancies to build on the recovery that took place during the latter part of the financial year. Peace and stability in Sri Lanka will be a pre-requisite for the strong growth of the Leisure Sector businesses.

