



FMCG Focus

*Reinforcing brand equity and
diversification into Homecare and Foods*

Operational Review

Branded Personal Care, Homecare & Food Products are the principal activities of the Hemas FMCG sector, which accounts for 33% of group Turnover and 39% of group Profits. Historically, the Personal Care business has dominated the sector, and Hemas is the second largest player in Sri Lanka in this category with an overall market share of around 27%. Last year the sector focus has been to diversify into related FMCG segments, namely Homecare and Foods through a combined strategy of new product development and acquisitions.

For the year under review, the sector recorded a turnover of Rs 3.8Bn reflecting a top-line growth of 20.5%. Sector profits for the year were Rs 399Mn, a bottom-line decline of 2.3%, although operating profits

markets have been identified and our brands are now available on a limited basis in Pakistan.

The sector continued to grow its Homecare & Foods business with revenues up by 144% off a small base. *Diva* detergent powder has a growing franchise for its value for money offering and closed at a market share of 12%. In the Paper category, *Nimex* was re-launched and performed well during the year, consolidating its strong market presence. In Foods, the acquisition of the *Mr Pop* brand has provided us with a strong franchise in the fast growing snack category and several activities were carried out to increase consumer appeal and trial.

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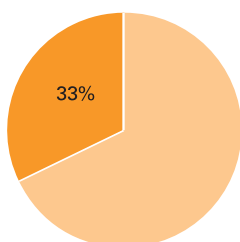
increased over the year. Profit margins of the sector were impacted due to a change in the sales mix towards low margin Homecare & Food products and higher taxes. Whilst we saw strong industry growth during the year, there was a slow down in the second half of the year. A key driver of industry growth would seem to be rural penetration, which increased significantly.

Within Personal Care, our flagship brands *Baby Cheramy* and *Clogard* were awarded 'Super Brand' status, giving further recognition to the strong equity that we have already built with consumers. Our hair care brand *Kumarika* did well over the year and is now the market leader in the hair oil category. *Velvet* soap performed satisfactorily over the year with a steadily increasing market share. Although our key brands in the fragrance category performed satisfactorily, the free availability of unregistered fragrances in the grey market provide an impediment to growth. Together with other local manufacturers, we have made representations to the relevant Ministry and are hopeful that measures will be taken to provide a level playing field. We are actively looking at leveraging our key brands in regional markets and this effort is now headed by a senior resource person. Specific

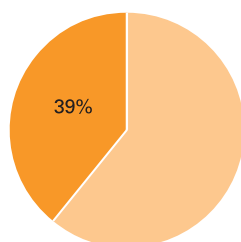
During the year, the sector finalised plans and started construction of a new facility at Dankotuwa under the 'Nipayum Lanka' programme to take advantage of the tax benefits offered. Whilst capitalising on tax savings, the new facility has been designed with a view to enhance capacity, streamline process flow and provide a better environment for the workforce. One of the highlights of the facility will be the 'Hemas Innovation centre' which is a special purpose building within the complex which will house the scientists and others who drive our research efforts.

Looking forward, we are concerned that industry growth in our core business would be stunted by high levels of inflation and a reduction in disposable income. Our strategy would be to continue to focus on investing in our core brands whilst launching new brands in sizeable high growth categories where significant opportunities for differentiation exist. We constantly look for acquisitions which make strategic sense. A key priority in the coming year will be the successful implementation of our relocation project.

Segment Revenue vs Group

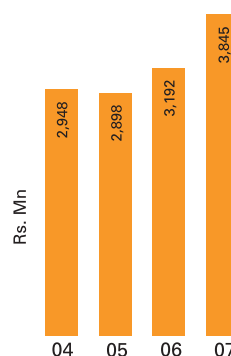


Segment Profit vs Group



■ FMCG Sector

Revenue



Net Profit after Taxation

