Financial Review

Group Financial Review 2006/7

Hemas Holdings Ltd. reported Consolidated Earnings of Rs 1,005.7Mn, reflecting a growth of 4.9% over the previous year, and posted an Earnings per Share of Rs 9.90 showing an increase of 4.0%. The Return on Equity was a healthy 21.1% while the Return on Capital Employed was 22.3%.

Group Revenue

For the year under review, Group Revenues increased by 20.4%, from Rs 9.8Bn to Rs 11.8Bn. All Sectors except the Leisure Sector made a sizeable contribution towards Revenue growth by posting top-line growth rates exceeding 15%.

Profitability & Growth

When compared with the previous financial year, overall profit margins have declined due to the following reasons:

- A drop in gross margins as a result of the shift in the sales mix towards low margin businesses.
- An increase in the overhead base due to increased IT and SAP related expenditure causing administration expenses to increase by 27%.
- An increase in the effective tax rate from 22.4% in 05/06 to 27.5% due to the lack of investment relief benefits vis-à-vis the previous year causing the tax expense to increase by 37.5%.
- Development expenditure charged to the income statement with regard to new business projects in FMCG, Healthcare and Transportation Sectors.

As a result, the Group Profits have not been able to match the pace at which Group Revenues have grown over the year, as presented in the table below:

	Annual Growth 06/07	Profit Margin 06/07	Profit Margin 05/06
Group Revenue	20.4%	-	-
Gross Profit	10.1%	31.7%	34.7%
Operating Profit	9.8%	14.2%	15.6%
Profit before Tax	12.8%	11.9%	12.8%
Group Earnings	4.9%	8.5%	9.8%

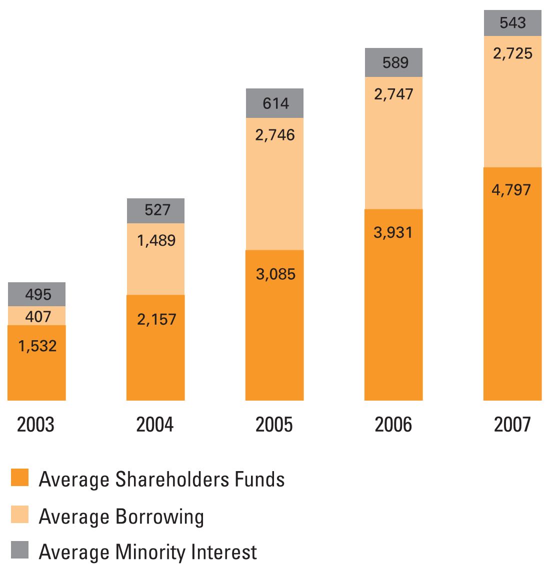
Underlying Growth

Underlying Earnings, (defined as Group Earnings before taking into account non-recurrent items such as any capital gains and losses, negative goodwill and one-off tax benefits) have grown by 25% over the year. However non-recurrent profits have declined by 71%, reducing the Overall Earnings growth to a mere 4.9%. This was due to the notable absence of investment relief tax benefits during the year as against the previous year.

Capital Utilization

Capital employed has increased from Rs 6.9Bn to Rs 8.2Bn, reflecting a growth of 18.5% in the capital base. Return on Capital Employed (ROCE) has dropped to 22.3% during 2006/07 from 22.9% in the previous year, on account of margin reductions explained earlier, and a higher capital base, a part of which is invested in new business projects, which are yet to generate returns. However, we are confident that ROCE would improve once the new businesses commence to generate positive cash flows.

Capital Employed



As the total equity base increased by 22.1% over the year from Rs 4.3Bn to Rs 5.3Bn, the Return on Equity (ROE) has declined from 24.4% to 21.1%. Effective tax rate has shown a significant increase, from 22.6% to 27.5%, and the average financial

Financial Review

leverage during last year has been lower than that of the previous year. As a result the marginal drop in ROCE last year is translated into a larger drop in ROE. The average ROE of the Group over the last five years has been 25.3% and it is indeed a challenge to maintain returns at these high levels. However, new business projects that we have currently embarked on are expected to contribute positively to the overall ROE in the coming years.

EPS & ROE

Cash Flows & Dividends

Cash flow from Operating Activities has significantly reduced as a result of increased working capital tied up in operations in addition to the factors that contributed to the decrease in net margins.

Hemas has maintained a gross dividend payout ratio of 25.4% for the year ended 31 March 2007, as against a payout ratio of 26.3% in the previous year. The gross dividend payment for the year was Rs 253Mn compared to Rs 249Mn in 2005/06.