

# Financial Focus



# Corporate Governance

In keeping with the key concepts of corporate governance, Hemas has been structured and controlled internally to ensure that business is run lawfully and ethically, with due regard for its employees and stakeholders. Hemas has strived to maintain transparency when reporting on both financial and non-financial information such as the strategic objectives of the Company. Procedures and structures are in place to minimize potential conflicts of interest.

A comprehensive set of rules and guidelines for ethical conduct has been established for both Directors as well as employees with a view to sustain the corporate culture of the Company.

## BOARD OF DIRECTORS

The responsibilities of the Board of Directors include the setting out of strategic aims, providing leadership to put them into effect, supervising the management of the business and reporting to the shareholders.

The Board meets every two months, to monitor the performance of the executive management. A formal schedule of matters is specifically reserved for its decision. Control over the Company is exercised collectively by the Board of Directors. In addition, it has sought to improve the selection and appointment of non-executive directors to bring greater independence and objectivity to decision-making.

## BOARD BALANCE AND INDEPENDENCE

The Board includes six Executive Directors and three Non-Executive Directors with a balance of skills and experience which is appropriate for the requirements of the business.

The names of the Directors who served during the year under review are disclosed in the Report of the Directors.

Messrs Lalith De Mel, Maithri Wickremesinghe and Simon Scarff hold Office as Non-Executive Directors.

## THE CHAIRMAN

With a view to have a proper balance of power on the Board, the post of Chairman and Chief Executive have been separated with clear roles defined for each.

The Chairman is responsible for leadership of the Board ensuring its effectiveness on all aspects of its role. The Chairman also facilitates the effective contribution of Non-Executive Directors in

particular and ensures constructive relations between Executive and Non-Executive Directors.

## INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board is supplied with timely information in a form and quality appropriate to enable it to discharge its duties effectively. The Directors seek clarification or amplification where necessary.

All Directors receive an induction and the Company provides the necessary resources for developing and updating their knowledge and capabilities.

## PERFORMANCE EVALUATION

A formal and rigorous annual evaluation of its performance is undertaken by the individual members of the Board, at the end of each financial year. Individual evaluation aims to measure each Director's effective contribution and commitment.

## APPOINTMENTS TO THE BOARD AND RE-ELECTION

Appointments to the Board are made collectively and with the consent of all Board members. As per the provisions of the Articles of Association of the Company, a Director so appointed retires at the Annual General Meeting following his appointment and is eligible for re-election.

At every Annual General Meeting, one third of the Directors retire by rotation, with the exception of the CEO. They are however, eligible for re-election subject to shareholder approval.

## CODE OF ETHICS

In keeping with honest business practices, Hemas has adopted a company wide code of ethics to assist the Board of Directors of the group in complying with corporate policies and the Law.

The key elements of the code are:

- Protecting the good name of the Company
- Avoiding common sources of conflict
- Guidelines for social activities
- Dealing with financial conflicts arising from relationships with suppliers
- Avoiding personal or secret profits
- Non personal conflicts
- Conflict of duty and interest

## Corporate Governance

A code on ethical standards has also been established and is applied to guide all employees on acceptable conduct.

### EXECUTIVE COMMITTEE

The Executive Committee manages the day-to-day operations of the Company and prepares an annual strategic plan for approval. The Committee meets each month to monitor the actual performance against projections and any changes are reported to the Board for their review.

### ACCOUNTABILITY AND AUDIT

The Board believes that it is of prime importance to present a balanced and understandable assessment which extends to interim and other price sensitive public reports and reports to regulators as well as information required to be presented by statutory requirements.

The financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards, the rules and regulations of the Colombo Stock Exchange and the Companies' Act.

### INTERNAL CONTROL

A sound system of internal control is maintained by the Board to safeguard shareholder's investments and the Company's assets.

Annually, the Board conducts a review of the effectiveness of the group's system of material controls including financial, operational and compliance controls and risk management systems.

### REMUNERATION COMMITTEE

The objectives of the Remuneration Committee are to review and approve the overall remuneration philosophy, strategy, policies and practices including performance management systems, fixed and variable pay schemes and benefits. The Committee comprises two Non-Executive Directors. The Report of the Remuneration Committee is given on page 46 of this Report.

### AUDIT COMMITTEE AND AUDITORS

Formal and transparent arrangements are established for considering how financial reporting and internal control principles are applied for maintaining an appropriate relationship with the company's Auditors.

*The written terms of reference of the Audit Committee includes:-*

- Monitoring the integrity of the financial statements of the Company.
- Review the Company's internal financial controls and risk management systems.
- Review and monitor the effectiveness of the internal audit process.
- Make recommendations to the Board in relation to the appointment, re-appointment and removal of external auditors and approve the remuneration and terms of engagement of the External Auditor.
- Compliance with laws, regulations and professional standards.

The members of the Audit Committee are as given below:-

**Mr. Simon Scarff** (Chairman)

**Mr. Maithri Wickremesinghe**

### CONSTRUCTIVE USE OF THE AGM

The Annual General Meeting (AGM) and the published reports of the Company are a means of communicating and encouraging shareholder and investor participation. The Board believes that maintaining good relationships with shareholders is of prime importance. The Chairmen of all sub Committees of the Board are present at the AGM and are willing to answer questions raised by the shareholders.

The notice and related papers are sent out to the shareholders 15 working days prior to the date of the AGM. The AGM is held within three months of the financial year end.

# Risk Management

Being a diversified Group exposed to many areas of business, we realize the importance of having an effective Risk Management Framework in place, in order to manage the various types of risks such as strategic, operational, financial and hazard risks. The effective management of risk through a systematic framework results in an improved risk profile, which enhances shareholder value.

Risk management at Hemas is intertwined with the strategic and business planning framework. The key objective of risk management at Hemas is to improve decision making and hence Group profitability by having a framework, which ensures that only justifiable risks are taken whilst unjustifiable risks are avoided. This mechanism also ensures that the speed of decision making is not adversely affected by unnecessary controls.

The risk management process of the Group covers the areas of business strategy & operations, finance, legal & regulatory, credit management, treasury management, human resource management and information technology, and consists of the following key components:

- Risk identification and assessment at the annual planning stage.
- Review of policy, processes & compliance reporting by the Internal Audit Division.
- Centralized treasury function to monitor and manage exposure to interest rate and exchange rate risks.
- A provisioning policy to adequately provide for doubtful realization of current assets.
- A central function to ensure that Group assets are properly insured.
- A process to ensure the security and reliability of IT systems.

As the Group looks to diversify into new areas whilst maintaining a steady growth in its current businesses, and given the increasing dynamism in the business environment, we at Hemas strive for continuous improvements in our risk management process with a view to delivering better value to our stakeholders.

# Report of the Directors

The Directors of Hemas Holdings PLC have pleasure in presenting the audited Financial Statements of the Company together with the audited Consolidated Financial Statements of the Group for the year ended 31st March 2007.

These were approved by the Directors on 23rd May 2007.

## Principal Activities

*Hemas Holdings PLC*

The principal activities of the Company continues to be carrying out investment activities and providing management and administrative services to companies within the group.

## Subsidiaries and Associates

The Subsidiaries and Associates within the group are engaged in diverse activities as described in note 41 to the financial statements.

## Review of Business Segments

A review of the affairs of the Group and significant events that took place during the year are described in detail in the CEO's review on pages 9-11, the Sector Reports on pages 12 to 21 and the financial review on pages 22 and 23. These reports form an integral part of the Report of the Directors.

## Important Events during the year

In terms of the Takeovers and Mergers Code 1995 Hemas Holdings PLC, together with parties acting in concert, made a mandatory offer to the shareholders of Serendib Hotels PLC in August 2006 for the purchase of all the remaining voting shares of Serendib Hotels PLC and its Debentures which are convertible to voting ordinary shares. The Offer was closed on 24th August 2006. Hemas Holdings PLC acquired 617,325 Voting Ordinary Shares and 11,589 Convertible Debentures thus increasing its voting stake in Serendib Hotels PLC to 26.2% .

Hemas Power (Pvt) Limited, a wholly owned subsidiary of Hemas Holdings PLC acquired the assets of Giddawa Hydro Power (Pvt) Limited in September 2006 and subsequently obtained Board of Investment status.

## System of Internal Controls

The Board of Directors have conducted a review of the effectiveness of the system of internal controls covering the areas of finance and operations, legal and regulatory risk identification, assessment and management with a view to delivering better

value to the stakeholders. They are of the view that the internal controls in place are adequate.

## Mission and Core Values of the Group

The Company's Mission and core values are stated on page 2 of this Report.

## Results and Dividends - 31st March 2007

	Rs.
Group Turnover	11,778,136,195
Net profit before tax	1,407,184,717
Income tax expenses	387,647,543
Net profit after tax	1,019,537,174
Minority interest	13,810,108
Net profit attributable to the Group	1,005,727,066
Accumulated profits brought forward	2,451,308,150

The Company paid a tax free 1st Interim Dividend of 12.5% on 15th November 2006.

A 12.5% 2nd Interim Dividend (gross effective) was paid to the shareholders on 27th March 2007.

A Final Dividend has not been recommended.

## Property, Plant and Equipment

Details of Property, Plant and Equipment of the Company and the Group and their movements are given in note 11 to the Financial Statements on pages 67 to 69.

## Reserves

Total Reserves of the Company and the Group stood at Rs 3.3Bn and Rs 4.19Bn respectively as at 31st March 2007. Movements are given in the Statement of Changes in Equity on page 50.

## Investments

Information relating to Investments are given in notes 15 to 18 to the Financial Statements on pages 71-75.

## Issued Capital

The Issued Capital of the Company as at 31st March 2007 was Rs.1,013,081,240/- divided into 101,308,124 Ordinary Shares of Rs. 10/- each as against Rs 998,012,490/- divided into 99,801,249 Ordinary Shares of Rs. 10/- each as at 31st March 2006. The increase was a result of the exercise of Stock Options during the year.

# Report of the Directors

## Share Information

Information on earnings, dividends, net assets and share trading are disclosed on pages 3 and 96.

## Major Shareholdings

The twenty largest shareholders of the Company are disclosed on page 97 of this Report.

## Employee Stock Option Schemes

An Employee Share Option Plan (ESOP) was approved by the shareholders of the Company in the year 2003, whereby the Company issued a total of 3,120,000 Ordinary shares to the Senior Management and Employees based on performance. These options were required to be exercised between the period 1st April 2004 and 31st March 2008.

The first and second grants have been finalized. The third grant is in progress and options on a total of 500,875 shares have been exercised as at 31st March 2007.

On 29th June 2006, subsequent to having received the concurrence of the Colombo Stock Exchange and The Securities and Exchange Commission of Sri Lanka respectively, shareholder approval was obtained to issue a further 2,994 000 shares representing 3% of the issued shares as at 31st March 2006 to the eligible management staff of the group by the creation of an Employee Share Option Scheme (ESOS). For the purpose of operating the ESOS, Messrs Jacey Trust Services were appointed as Trustees to the ESOS.

The 1st tranche of 1,006,000 shares were issued to the Trustees on 25th September 2006 at Rs. 105/- per share, on behalf of the senior management. Exercise of the share options would be between the period September 2006 and March 2009.

The Trustees were granted interest free loans by the subsidiaries of the Company to subscribe for a sum equivalent to the issue price of the total of 1,006,000 shares.

86,500 share options have been exercised as at 31st March 2007 and transferred from the Trust to the respective employees.

## Auditors' Report

The Report of the Auditors on the financial statements of the Company and the Group is included on page 47 of the Annual Report.

## Changes in Accounting Policies

The accounting policies adopted by the Company and the Group are consistent with those of the previous financial year except as follows:

- SLAS 3 (revised) - Presentation of Financial Statements
- SLAS 5 (revised) - Inventories
- SLAS 10 (revised) - Accounting Policies, Changes in Accounting Estimates
- SLAS 12 (revised) - Events after the Balance Sheet Date
- SLAS 14 (revised) - Income Taxes
- SLAS 18 (revised) - Property, Plant and Equipment
- SLAS 19 (revised) - Leases
- SLAS 21 (revised) - The Effects of Changes in Foreign Exchange Rates
- SLAS 26 (revised) - Consolidated and Separate Financial Statements
- SLAS 27 (revised) - Accounting for Investments in Associates
- SLAS 30 (revised) - Related Party Disclosures
- SLAS 31 (revised) - Interests in Joint Ventures
- SLAS 34 (revised) - Earnings per Share
- SLAS 38 (revised) - Non Current Assets held for Sale and Discontinued Operations
- SLAS 40 - Investment Property
- SLAS 41 - Impairments of Assets

The principal effects of these changes are given in the Accounting Policies.

# Report of the Directors

## Remuneration of Directors

The total remuneration of the Board of Directors of Hemas Holdings PLC during the year under review amounted to Rs. 31,210,581.

Emoluments received are indicated in detail in the notes to the Financial Statements.

## Directors

The Board of Directors of Hemas Holdings PLC comprise 8 members, three of whom serve as Non-Executive Directors. The qualifications and experience of the Directors are given on page 26 of the Report.

The names of the Directors who held office during the year under review are as given below:-

Mr. J.C.L. De Mel (Chairman)

Mr. H.N. Esufally (CEO)

Mr. A.N. Esufally

Mr. I.A.H. Esufally

Mr. D.Bhatnagar

Mr. M.A.H. Esufally

Mr. S.J. Scarff

Mr. M.E. Wickremesinghe

Ms. M.S.Fonseka (resigned with effect from 14th February 2007)

In accordance with the Articles of Association of the Company, Messrs. M. Wickremesinghe and S.J. Scarff retire by rotation at this year's Annual General Meeting and each, being eligible, is recommended for re-election.

Mr. J.C.L. De Mel, who reached the age of 70 years on 6th May 2007, vacates office in terms of Section 210 (2) (a) of the Companies' Act No. 7 of 2007. The Directors intend proposing a resolution to re-appoint Mr. J.C.L. De Mel in accordance with Section 211 (1) of the Statutes.

Direct and Indirect shareholdings of the Directors during the year were as follows:-

	As at 31.03.07	As at 31.03.06
Mr. J.C.L. De Mel	17,500	17,500
Mr. H.N. Esufally	18,485,332	18,446,582
Mr. A.N. Esufally	19,298,075	19,283,700
Mr. I.A.H. Esufally	18,382,750	18,382,750
Mr. D. Bhatnagar	15,550	10,300
Mr. M.A.H. Esufally	18,287,133	18,287,133
Mr. S.J. Scarff	NIL	NIL
Mr. M.E. Wickremesinghe	2,250	2,250
Ms. M.S. Fonseka	NIL	158,605

(up to 14th February 2007)

## Debentures

There were no debentures issued by the Company during the year under review.

## Directors' Interest in Contracts

Directors' Interest in Contracts or proposed contracts with the Company are disclosed in note 37 to the financial statements. These interests have been declared at meetings of the Board. The Directors have no direct or indirect interest in any other contract or proposed contract.

## Corporate Governance

Your Board of Directors believe that professionalism, integrity and high business ethics are significant company assets in business. Whilst being committed to the highest standards of ethical business conduct, the manner and extent to which the Company has conformed to the principles of Corporate Governance are set out on page 38.

## Report of the Directors

### Human Resources

Your company considers employee relations an important aspect in its growth. Hemas continues to seek modern systems and techniques to encourage and support the development of competencies of staff to ensure their optimum contribution towards achieving corporate goals. Measures taken in this regard are set out on Page 35.

### Statutory Payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments in relation to the Government and to the Employees have been settled to date or provided for in the books of the Company.

### Events After Balance Sheet Date

No circumstances have arisen and no material events have occurred subsequent to the balance sheet date that require disclosure in or adjustment to the Financial Statements other than that disclosed in Note 34.

### Going Concern

The Directors have adopted the going concern concept in preparing these Financial Statements.

### Group Auditors

Messrs Ernst & Young, Chartered Accountants, served as the Group Auditors during the year under review. The Auditors have confirmed that they have had no interest in or relationship with the Company or its subsidiaries other than that of Auditors. They confirm that they are independent in accordance with the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

The Audit Fees payable and fees for other services rendered are as noted hereunder:-

Fees payable to Auditors for the current financial year Rs. 594,000.

Fees payable for other services rendered Rs. 602,514.

Messrs, Ernst & Young have expressed their willingness to continue in office. A resolution to re-appoint them and to authorize the Directors to fix their remuneration will be proposed at the Annual General Meeting.

### HEMAS HOLDINGS PLC

*Husein Esufally*

**Husein Esufally**  
Director

23rd May 2007

*Lalith De Mel*

**Lalith De Mel**  
Director



# Statement of Directors' Responsibilities

The Directors are required by the Companies' Act to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss for that period.

In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made. Relevant accounting standards have been followed.

The Directors are responsible for maintaining adequate accounting records, for safe guarding the assets of the Group and for preventing and detecting fraud and other irregularities.

Accordingly, the Directors have taken all reasonable steps to ensure that proper books of accounts of the Company and its subsidiaries and associates have been maintained and that the financial statements have been prepared in compliance with the Sri Lanka Accounting Standards.

By Order of the Board,

**HEMAS HOLDINGS PLC**

**Hemas Corporate Services (Private) Limited**

*Secretaries*

23rd May 2007

# Report of the Remuneration Committee

The Remuneration Committee is composed of the Chairman, Lalith De Mel and Simon Scarff, a Non-Executive Director. They both bring considerable international experience to the role. The Committee has met 6 times during the year.

The Committee works closely with the CEO and the Human Resources function in the business. It seeks external guidance and data to ascertain the profile of remuneration and the practices in the comparative industrial sectors.

The Committee has, after looking inwards and outwards, formulated a remuneration philosophy for the business. It has paid particular attention to rewarding performance, generating a strong commitment from employees and providing incentives for a longer term relationship with the company.

This philosophy has now been encompassed in salary, bonus and share option schemes.

The Committee has placed a major emphasis on ensuring the long term success of the business, and has sought to put in place succession policies which will provide the right people for the right jobs in the organization in the future.

The remuneration Committee reviews the performance of senior employees and determines the remuneration of Executive Directors and Senior Management.



**Lalith De Mel**

*Chairman - Remuneration Committee*

23rd May 2007

# Audit Committee Report

The Audit Committee, which has been formally constituted as a Sub Committee of the Board, comprises two Non-Executive Directors, serving in an independent capacity. The names of the members of the Committee are given in the Corporate Governance Report on page 39.

The Chief Executive Officer and the Chief Financial Officer attend meetings of the Audit Committee by invitation, with the Company Secretaries in attendance. The External Auditors attend these meetings when their presence is considered necessary. The role of the Committee, which has specific terms of reference is described in the Corporate Governance Report on page 39.

The Committee is empowered to examine matters relating to the financial affairs of the group and its internal and external audits. It endeavours to assist the Directors to discharge their duties and responsibilities in respect of regulatory compliance and risk management.

The Audit Committee met four times during the year. The following activities were carried out by the Committee:-

- The Committee met with the Internal Auditors to formulate the internal audit plan. The scope and coverage of internal audit assignments were discussed with the Internal Auditors with a view to making the internal audit process a more meaningful exercise and providing value addition to management.
- The adequacy and effectiveness of internal financial controls were assessed by the Committee and recommendations made to ensure that controls continue to be effective. The Committee also focused on the business risks faced and the steps to be taken in mitigating such risks.
- The Committee reviewed the financial reporting systems adopted by the group in the preparation of quarterly and annual financial statements to ensure reliability of the process, consistency in accounting policies and compliance with the Sri Lanka Accounting Standards. The Committee, in its evaluation of the financial reporting system also noted the adequacy of content and quality of routine management information reports forwarded to its members. The financial statements were recommended to the Board for approval and issuance.

- The Committee held meetings with the External Auditors to review the scope of the audit and the audit management letters of the group companies. Action taken by the management in response to issues raised in these reports were discussed and remedial action where necessary was recommended by the Committee.

The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young be re-appointed as Auditors for the financial year ending 31st March 2008, subject to the approval of the shareholders at the forthcoming Annual General Meeting.



**Simon Scarff**  
*Chairman - Audit Committee*

23rd May 2007

# Auditor's Report



■ Chartered Accountants  
201 De Saram Place  
P. O. Box 101  
Colombo 10  
Sri Lanka

■ Telephone : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180.  
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## AUDITORS' REPORT TO THE MEMBERS OF HEMAS HOLDINGS LIMITED (NOW KNOWN AS HEMAS HOLDINGS PLC)

We have audited the Balance Sheet of Hemas Holdings Limited as at 31 March 2007, the Consolidated Balance Sheet of the Company and its Subsidiaries as at that date, and the related statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 48 to 94.

### Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

### Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Company has maintained proper books of account for the year ended 31 March 2007, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act, No.17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 March 2007 and its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, cash flows and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act, No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31 March 2007 and the profit and cash flows for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

### Directors' Interest in Contracts with the Company

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31 March 2007 except as stated in Note 37 to these financial statements.

Colombo  
23rd May 2007

■ Partners : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA  
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA  
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)  
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA  
Ms. L C G Nanayakkara FCA FCMA

# Income Statement

Year ended 31 March 2007

	Note	Group		Company	
		2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated
<b>Revenue</b>	3	11,778,136,195	9,779,338,126	126,704,982	67,832,056
Cost of Sales		(8,047,037,798)	(6,389,825,797)	-	-
Gross Profit		3,731,098,397	3,389,512,329	126,704,982	67,832,056
Dividend Income	4	1,225,585	875,349	60,174,089	463,003,700
Change in Fair Value of Investment Properties		163,385,091	22,709,800	50,579,482	76,802,975
Other Income	5	251,580,809	234,286,226	51,626,499	49,321,731
Distribution Expenses		(929,825,347)	(908,898,229)		-
Administrative Expenses		(1,466,388,602)	(1,154,023,178)	(153,834,359)	(94,851,429)
Other Operating Expenses		(74,678,347)	(57,309,839)		-
<b>Operating Profit</b>	6	1,676,397,586	1,527,152,458	135,250,693	562,109,033
Finance Cost	7	(272,926,465)	(281,828,704)	(42,599,730)	(11,826,077)
Share of Associate Company Profit/(Loss)		3,713,596	2,050,550	-	-
Share of Profits of Subsidiaries		-	-	-	457,639,676
<b>Profit Before Taxation</b>		1,407,184,717	1,247,374,305	92,650,963	1,007,922,632
Income Tax Expenses	8	(387,647,543)	(281,838,083)	(25,016,040)	(14,121,810)
<b>Profit for the Year</b>		1,019,537,174	965,536,221	67,634,923	993,800,822
<b>Attributable to:</b>					
Equity Holders of the Parent		1,005,727,066	958,599,259	67,634,923	993,800,822
Minority Interests		13,810,108	6,936,962	-	-
		1,019,537,174	965,536,221	67,634,923	993,800,822
Earnings Per Share - Basic	9	9.90	9.52	0.67	9.99
Dividends Per Share - Interim Paid	10	2.50	2.50	2.50	2.50
- Final Proposed	10	-	-	-	-

The Accounting Policies and Notes on pages 52 through 94 form an integral part of the financial statements.

Colombo  
23 May 2007

# Balance Sheet

As at 31 March 2007

	Note	Group		Company		
		2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated	
<b>ASSETS</b>						
<b>Non-Current Assets</b>						
Property, Plant & Equipment	- At Cost	11	3,437,861,717	3,535,679,822	67,854,308	65,934,441
	- At Valuation	11	1,267,060,178	1,129,258,960	-	-
Investment Property		12	963,709,950	570,152,108	258,709,950	207,744,975
Intangible Assets		13	155,562,952	107,267,828	-	-
Leasehold Property		14	71,042,005	75,345,819	-	-
Loans Due from Related Parties		21	-	-	12,183,718	69,577,642
Investments in Subsidiaries		15	-	-	4,335,974,468	4,255,394,008
Investments in Associates		16	42,933,320	102,609,226	-	43,045,547
Investments in Joint Venture		17	-	-	8,359,120	-
Other Investments		18	23,837,628	35,472,908	13,405,100	2,905,000
			5,962,007,750	5,555,786,671	4,696,486,664	4,644,601,613
<b>Current Assets</b>						
Inventories		19	991,030,234	745,361,436	-	-
Trade and Other Receivables		20	3,304,167,157	2,449,813,447	75,148,242	15,290,917
Loans Due from Related Parties		21	-	-	255,337,635	223,146,209
Other Investments		18	125,542,355	311,237	48,642	48,642
Tax Recoverable			47,509,772	29,903,723	10,919,804	7,971,326
Amounts Due from Related Parties		22	-	631,489	58,360,790	82,339,400
Short Term Cash Investments		32	505,833,764	299,365,761	3,586,272	117,249,855
Cash and Bank Balances		32	459,764,484	943,587,755	75,726,517	101,261,849
			5,433,847,766	4,468,974,848	479,127,902	547,308,198
<b>Total Assets</b>			11,395,855,516	10,024,761,519	5,175,614,566	5,191,909,811
<b>EQUITY AND LIABILITIES</b>						
<b>Equity attributable to the Equity Holders of the Parent</b>						
Issued Share Capital		23	1,013,081,240	998,012,490	1,013,081,240	998,012,490
Preference Share Capital		23	75,000,000	91,666,665	-	-
Reserves		24	635,444,251	590,583,630	372,663,859	372,663,859
Share Premium			315,931,333	187,516,403	315,931,333	187,516,403
Accumulated Profits			3,234,682,081	2,451,308,150	2,612,568,365	2,794,908,532
Shareholders' Funds			5,274,138,905	4,319,087,338	4,314,244,797	4,353,101,284
Minority Interest			588,527,376	496,967,120	-	-
Total Shareholders' Funds and Minority Interest			5,862,666,281	4,816,054,458	4,314,244,797	4,353,101,284
<b>Non-Current Liabilities</b>						
Non Interest Bearing Loans and Borrowings		25	21,034,768	11,312,854	421,281,342	294,934,285
Interest Bearing Loans & Borrowings		26	1,277,556,080	1,649,444,053	-	-
Deferred Income Tax		27	171,032,817	126,605,577	51,882,237	31,576,800
Other Deferred Liabilities		28	120,831,293	103,702,432	11,381,592	11,221,428
Provisions		29	7,000,000	31,046,917	-	-
			1,597,454,958	1,922,111,833	484,545,171	337,732,513
<b>Current Liabilities</b>						
Trade and Other Payables		30	2,168,564,119	2,115,835,861	17,215,162	33,175,660
Dividends Payable			2,684,034	126,937,803	167,567	124,452,365
Income Tax Liabilities			157,674,585	120,486,221	9,231,063	6,490,159
Amounts Due to Related Parties		31	-	3,377,623	4,337,442	14,162,132
Non Interest Bearing Loans & Borrowings		25	1,207,000	3,534,220	-	-
Interest Bearing Loans & Borrowings		26	1,605,604,539	916,423,500	345,873,364	322,795,698
			3,935,734,277	3,286,595,228	376,824,598	501,076,014
<b>Total Shareholders' Funds, Minority Interest and Liabilities</b>			11,395,855,516	10,024,761,519	5,175,614,566	5,191,909,811

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the board by,

*Husein Esufally*

**Husein Esufally**  
Chief Executive Officer

*Lalith De Mel*

**Lalith De Mel**  
Chairman

The Accounting Policies and Notes on pages 52 through 94 form an integral part of the financial statements.

Colombo  
23 May 2007

# Statement of Changes in Equity

Group	Attributable to Equity Shareholders of the Parent					Total Equity Rs.				
	Ordinary Share Capital Rs.	Preference Share Capital Rs.	Share Premium Rs.	Capital Redemption Reserve Rs.	Exchange Reserve Rs.		Revaluation & Other Capital Reserve Rs.	Accumulated Profits Rs.	Total Rs.	Minority Interests Rs.
Balance as at 31 March 2005	791,295,500	100,000,000	343,889,834	-	81,001,865	580,389,548	1,745,396,259	3,641,973,006	681,900,124	4,323,873,130
Net Profit for the Year	-	-	-	-	-	-	956,599,259	956,599,259	6,936,962	963,536,221
Share Options (ESOP) exercised during the year	7,937,740	-	42,405,819	-	-	-	-	50,343,559	-	50,343,559
Bonus Issue	198,779,250	-	(198,779,250)	-	-	-	-	-	-	-
Redemption of Preference Shares	-	(8,333,335)	-	8,333,335	-	-	(8,333,335)	(8,333,335)	-	(8,333,335)
Dividends Paid - Ordinary Shares (2006)	-	-	-	-	-	-	(236,299,809)	(236,299,809)	(712,162)	(237,011,971)
- Preference Shares	-	-	-	-	-	-	(11,753,425)	(11,753,425)	-	(11,753,425)
Revaluation Reserve during the Year	-	-	-	-	-	(1,193,490)	(1,193,490)	(1,193,490)	(3,406,337)	(4,599,827)
Transferred to/from During the Year	-	-	-	-	-	28,150,663	(28,150,663)	(377,979)	-	(377,979)
Net Gain/(Loss) Recognised Directly in Equity	-	-	-	-	-	(39,524,248)	32,227,843	(7,296,405)	(31,357,364)	(38,653,769)
Exchange Reserve During the Year	-	-	-	-	(66,574,043)	-	-	(66,574,043)	-	(66,574,043)
Adjustment in respect of changes in Group Holding	-	-	-	-	-	-	-	-	(156,394,103)	(156,394,103)
<b>Balance as at 31 March 2006 - Restated</b>	<b>998,012,490</b>	<b>91,666,965</b>	<b>187,516,403</b>	<b>8,333,335</b>	<b>14,427,822</b>	<b>567,822,473</b>	<b>2,451,308,150</b>	<b>4,319,087,338</b>	<b>496,967,120</b>	<b>4,816,054,458</b>
Net Profit for the Year	-	-	-	-	-	-	1,005,727,066	1,005,727,066	13,810,108	1,019,537,174
Share Options (ESOP) exercised during the year	15,068,750	-	128,414,930	-	-	-	-	143,483,680	-	143,483,680
Redemption of Preference Shares	-	(16,666,665)	-	16,666,665	-	-	(16,666,665)	(16,666,665)	-	(16,666,665)
Dividends Paid - Ordinary Shares (2007)	-	-	-	-	-	-	(249,975,090)	(249,975,090)	-	(249,975,090)
- Preference Shares	-	-	-	-	-	-	(10,002,740)	(10,002,740)	-	(10,002,740)
Revaluation Reserve during the Year	-	-	-	-	-	118,090,002	-	118,090,002	-	118,090,002
Transfer to/from during the Year	-	-	-	-	-	70,696,939	(70,696,939)	-	-	-
- Overhaul Reserve	-	-	-	-	-	(8,198,250)	8,198,250	-	-	-
- Revaluation Reserve	-	-	-	-	-	-	-	-	-	-
Effect of adopting SLAS 40 - Investment Property	-	-	-	-	-	22,042,283	80,688,600	102,731,883	-	102,731,883
- Changes in Fair Value	-	-	-	-	-	(41,193,306)	41,193,306	-	-	-
- Transfer to/(from) Revaluation Reserve	-	-	-	-	-	-	(21,805,500)	(21,805,500)	-	(21,805,500)
- Deferred Tax	-	-	-	-	-	(2,451,588)	16,712,643	14,261,055	(34,253,766)	(19,992,711)
Adjustment in respect of changes in Group Holding	-	-	-	-	-	-	-	-	111,252,958	111,252,958
Minority Share of Net Assets of Subsidiaries Acquired	-	-	-	-	-	(19,697,680)	-	(19,697,680)	756,956	(18,940,724)
Net Gain/(Loss) Recognised Directly in Equity	-	-	-	-	-	(18,924,865)	-	(18,924,865)	-	(18,924,865)
- Deferred Tax	-	-	-	-	-	(92,169,579)	-	(92,169,579)	-	(92,169,579)
- Write off of Project Development Cost	-	-	-	-	-	-	-	-	-	-
- Exchange Reserve	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 31 March 2007</b>	<b>1,013,081,240</b>	<b>75,000,000</b>	<b>315,931,333</b>	<b>25,000,000</b>	<b>(77,741,757)</b>	<b>688,186,008</b>	<b>3,234,682,081</b>	<b>5,274,138,905</b>	<b>588,527,376</b>	<b>5,862,666,281</b>

  

Company	Attributable to Equity Shareholders of the Parent					Total
	Share Capital Rs.	Share Premium Rs.	Capital Redemption Reserve Rs.	Exchange Reserve Rs.	Revaluation & Other Capital Reserve Rs.	
Balance as at 31 March 2005	791,295,500	343,889,834	-	81,001,865	580,389,548	1,745,396,259
Net Profit for the Year	-	-	-	-	-	956,599,259
Dividends Paid - 2006	-	-	-	-	-	(236,299,809)
Share Options (ESOP) exercised during the year	7,937,740	42,405,819	-	-	-	50,343,559
Bonus Share Issue	198,779,250	(198,779,250)	-	-	-	-
Share of Capital Reserve of Subsidiary	-	-	-	-	(209,049,564)	9,840,436
Effect of adopting SLAS 40	-	-	-	-	(41,193,306)	(10,609,129)
- Investment Property	-	-	-	-	-	(10,609,129)
Net Gain/(Loss) Recognised Directly in Equity	-	-	-	-	-	41,193,306
<b>Balance as at 31 March 2006 - Restated</b>	<b>998,012,490</b>	<b>187,516,403</b>	<b>8,333,335</b>	<b>14,427,822</b>	<b>567,822,473</b>	<b>2,451,308,150</b>
Net Profit for the Year	-	-	-	-	-	1,005,727,066
Dividends Paid - 2007	-	-	-	-	-	(249,975,090)
Share Options (ESOP) exercised during the year	15,068,750	128,414,930	-	-	-	143,483,680
Share of Capital Reserve of Subsidiary	-	-	-	-	(209,049,564)	9,840,436
Effect of adopting SLAS 40	-	-	-	-	(41,193,306)	(10,609,129)
- Investment Property	-	-	-	-	-	(10,609,129)
Net Gain/(Loss) Recognised Directly in Equity	-	-	-	-	-	41,193,306
<b>Balance as at 31 March 2007</b>	<b>1,013,081,240</b>	<b>315,931,333</b>	<b>25,000,000</b>	<b>(77,741,757)</b>	<b>688,186,008</b>	<b>3,234,682,081</b>

The Accounting Policies and Notes on pages 52 through 94 form an integral part of the financial statements.

Colombo

23 May 2007

# Cash Flow Statement

Year ended 31 March 2007

	Group		Company	
	2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated
<b>Operating Activities</b>				
<b>Profit Before Taxation</b>	1,407,184,717	1,247,374,304	92,650,963	1,007,922,632
<b>Non-Cash</b>				
Goodwill (Net)	(2,750,535)	(38,903,377)	-	-
Depreciation	407,899,381	364,389,117	22,296,816	16,041,356
(Profit)/Loss on Sale of Property, Plant & Equipment	(12,128,936)	(54,384)	(1,555,905)	-
Provision for Retiring Gratuity	34,382,389	26,177,496	2,299,215	4,276,032
Finance Cost	272,926,465	281,278,058	42,599,730	11,826,077
Investment Income	(1,225,585)	-	(60,174,089)	(463,003,700)
Share of (Profit)/Loss of Associate/Subsidiary	(3,713,596)	(2,050,548)	-	(457,639,676)
Change in Fair Value of Investment Property	(163,385,091)	(22,709,800)	(50,579,482)	(76,802,975)
(Profit)/Loss on Disposal of Associate	16,958,711	-	(1,494,700)	-
(Profit)/Loss on Sale of Investments	(2,300,639)	(31,666,250)	(922,500)	(14,631,093)
<b>Working Capital Adjustments</b>				
(Increase)/Decrease in Receivables	(854,353,710)	(245,311,291)	(59,381,325)	(4,350,147)
(Increase)/Decrease in Inventories	(245,668,798)	(12,425,450)	-	-
(Increase)/Decrease in Amounts Due from Related Companies	631,489	(486,021)	49,181,108	182,836,909
Increase/(Decrease) in Amounts Due to Related Companies	(3,377,623)	(185,718,707)	(9,824,690)	(144,274,681)
Increase/(Decrease) in Creditors and Accruals	10,222,514	174,280,747	(15,960,498)	15,599,161
Increase/(Decrease) in Provisions	(24,046,918)	31,046,917	-	-
Finance Cost Paid	(272,926,465)	(281,278,058)	(42,599,730)	(11,826,077)
Income Tax Paid	(364,184,212)	(248,210,347)	(4,918,177)	(8,537,017)
Gratuity Paid	(17,253,528)	(6,558,485)	(2,139,051)	(91,000)
Development Expenses paid	(5,898,074)	(13,388,532)	-	-
<b>Net Cash from/(Used in) Operating Activities</b>	<b>176,991,956</b>	<b>1,035,785,389</b>	<b>(40,522,315)</b>	<b>57,345,801</b>
<b>Investing Activities</b>				
Purchase of Property, Plant & Equipment	(365,415,804)	(337,127,033)	(26,406,452)	(37,208,670)
Purchase of Investment Property	-	-	(385,493)	-
Acquisitions & Disposals of Subsidiaries/Associates (Note 33)	(26,551,767)	13,066,117	(75,894,034)	(619,378,042)
Investment in Brand	(55,000,000)	(49,000,000)	-	-
Other Investments	(125,231,118)	(4,499)	(13,000,100)	-
Proceeds from Sale of Property, Plant & Equipment	48,217,510	17,214,374	3,745,674	13,028,669
Proceeds from Disposal of Investments	13,935,919	4,113,682	34,917,200	66,207,278
Redemption of Preference Shares	(16,666,665)	(8,333,335)	-	154,000,000
Dividends Received from Associates	5,670,000	-	5,670,000	-
Investment Income	1,225,585	-	54,504,089	463,003,700
<b>Net Cash from/( Used in) in Investing Activities</b>	<b>(519,816,340)</b>	<b>(360,070,694)</b>	<b>(16,849,116)</b>	<b>39,652,935</b>
<b>Financing Activities</b>				
Interest Bearing Loans & Borrowings( Net) -'Rupee Loan	16,423,670	(128,765,133)	145,845,157	81,104,339
-'US\$ Loan	(372,574,392)	(262,893,934)	-	-
Proceeds From Issue of Share Options (ESOP)	143,483,680	50,343,559	143,483,680	50,343,559
Proceeds From Minority ShareHolders	92,094,793	-	-	-
Dividends Paid - To Hemas Share Holders	(374,228,858)	(242,766,060)	(374,735,887)	(243,021,433)
- Preference Shares	(10,002,740)	(11,753,425)	-	-
Rental Deposits Received/(Paid)	9,721,914	(1,026,851)	-	-
Finance Lease Paid	(3,123,013)	(1,158,514)	-	-
<b>Net Cash from/(Used in) in Financing Activities</b>	<b>(498,204,946)</b>	<b>(598,020,358)</b>	<b>(85,407,050)</b>	<b>(111,573,535)</b>
Net Increase in Cash and Cash Equivalents	(841,029,330)	77,694,337	(142,778,481)	(14,574,799)
Cash & Cash Equivalents at the Beginning of the Year (Note 32)	813,485,926	735,791,589	218,511,704	233,086,503
Cash & Cash Equivalents at the End of the Year (Note 32)	(27,543,404)	813,485,926	75,733,223	218,511,704

The Accounting Policies and Notes on pages 52 through 94 form an integral part of the financial statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### 1.1 General

Hemas Holdings PLC is a public limited liability company incorporated and domiciled in Sri Lanka. The registered office and the principal place of business are situated at No. 36, Bristol Street, Colombo 01. Hemas Holdings PLC does not have an identifiable parent of its own.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were carrying out investment activities, and providing management and administration services to other Companies in the Group and the principal activities of the Subsidiaries, Associate and Joint Ventures are disclosed in note 41 to the financial statements.

### 1.3 Date of Authorisation for Issue

The financial statements of Hemas Holdings PLC for the year ended 31st March 2007 were authorised for issue, in accordance with a resolution of the Board of Directors on 23rd May 2007.

### 2.1 Basis of Preparation

The balance sheet, statements of income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31st March 2006 and for the year then ended, comply with the Sri Lanka Accounting Standards.

These financial statements presented in Sri Lanka Rupees have been prepared on historical cost basis except for the valuation of Land & Buildings and Investment Properties, which are stated at market values.

#### 2.1.1 Statement of Compliance

The consolidated financial statements of Hemas Holdings PLC and all its Subsidiaries (the 'Group') have been prepared in accordance with Sri Lanka Accounting Standards (SLAS)

#### 2.1.2 Going Concern

The Directors have made an assessment of the Company's and Subsidiaries' ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

#### 2.1.3 Consolidation Policy - Principles of Consolidation

##### (a) Subsidiaries

The financial statement of the Group represents the consolidation of the financial statements of Hemas Holdings PLC and all its subsidiaries as at 31 March 2007. The financial statements of the subsidiaries are prepared for the same

reporting year as the parent company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transaction that are recognised in assets, are eliminated in full.

Subsidiaries are consolidated from the date the Parent obtains control until such time as control ceases.

The total profits & losses for the period of the Company and of its subsidiaries included in consolidation are shown in the consolidated income statement.

Minority interests represent the portion of profit or loss and net assets not held by the group and presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, where the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

##### (b) Associate Companies

The investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the company has significant influence of 20% to 50% and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associates, net of any dividends paid by such associates. The income statement reflects the share of the results of operations of each associate. Where there has been a change recognised directly in the equity of the associate, the company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associate.

##### (c) Joint Ventures

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest. The Group recognises its interest in the joint venture using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its financial statements. The financial statements of the joint ventures are prepared for the same reporting year as the parent company except for Hellman Worldwide Logistics (Pvt)



# Notes to the Financial Statements

Ltd where the financial statement is prepared for 31 December 2006. All the material transactions are adjusted for the 3 months period ended 31 March 2007. Accounting policies of the joint venture are consistent with the parent company except for the depreciation policy of Heladhanavi Ltd which is fully described in note 2.4.8 to the financial statements.

## (d) Business Combination & Goodwill

Business Combinations are accounted for using the acquisition method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination after 1st June 2005 represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill acquired in a business combination prior to 1st June 2005 in accordance with the transitional provisions of revised SLAS 25 was amortised over a period of 5 years until 30th May 2005. Thereafter, commencing 1st June 2005 such amortisation of goodwill has been discontinued and the accumulated amortisation at that date has been eliminated against the carrying value of goodwill and the balance goodwill is tested for impairment in accordance with SLAS 41.

## Negative Goodwill

Negative goodwill arising on business combinations comprises the excess of the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Negative goodwill arising on business combinations are credited to the Income Statement.

## (e) Changes in Group Companies

Giddawa Hydro Power (Pvt) Ltd (96%) was acquired as a subsidiary. The controlling interest in Serendib Hotels Ltd. & Mowbray Hotels Ltd. were increased up to 63% from 54% and 89% from 40% respectively. Further the group has made investments in Vishwa BPO (Pte) Ltd. (100%), Hemas Hospital (Pte) Ltd. (70%) and Hellman Worldwide Logistics (Pvt) Ltd., (49%). The stake in Hela Clothing (Pte) Ltd. (Associate Company) was disposed during the year.

## (g) Country of Incorporation

All subsidiaries, associates and joint venture companies are incorporated in Sri Lanka, except for the following.

Name of subsidiary	Country of Incorporation	Reporting currency
HIF Logistics (Pvt) Ltd	Pakistan	Rupee (PKR).

## 2.1.4 Comparative Information

The accounting policies have been consistently applied by the Company and, except for the changes in accounting policy (policies) discussed more fully in 2.2, are consistent with those used in the previous year.

Previous years figures and phrases have been re-arranged wherever necessary, to conform to the current year's presentation. Significant changes made to comparative information are in respect of Revenue, Cost of Sales, Increase in Fair Value of Investment Property, Dividend Income, Other Operating Income, Deferred Tax, Revaluation Reserve, Leasehold Property, Property, Plant & Equipment and Preference Shares.

## 2.1.5 Discontinuing Operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of industry or geographical area of operations.

## 2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new/revised SLAS's during the year

- SLAS 3 (revised)  
- Presentation of Financial Statements
- SLAS 5 (revised)  
- Inventories
- SLAS 10 (revised)  
- Accounting Policies, Changes in Accounting Estimates
- SLAS 12 (revised)  
- Events after the Balance Sheet Date
- SLAS 14 (revised)  
- Income Taxes
- SLAS 18 (revised)  
- Property, Plant and Equipment
- SLAS 19 (revised)  
- Leases
- SLAS 21 (revised)  
- The Effects of Changes in Foreign Exchange Rates

# Notes to the Financial Statements

- SLAS 26 (revised)
  - Consolidated and Separate Financial Statements
- SLAS 27 (revised)
  - Accounting for Investments in Associates
- SLAS 30 (revised)
  - Related Party Disclosures
- SLAS 31 (revised)
  - Interests in Joint Ventures
- SLAS 34 (revised)
  - Earnings per Share
- SLAS 38 (revised)
  - Non Current Assets held for Sale and Discontinued Operations
- SLAS 40
  - Investment Property
- SLAS 41
  - Impairments of Assets

The principal effects of these changes are as follows;

## SLAS 14 (Revised) Income Taxes

The adoption of revised SLAS 14 requires deferred income tax to be provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for reporting purposes.

In accordance with the transitional provisions of the Standard, the Group has determined its transitional liability for deferred income tax, as the difference between the deferred income tax liability calculated based on the revised standard and the deferred income tax liability as accounted and disclosed in the financial statements on that date and the resulting reduction of the deferred income tax liability has been immediately recognised under SLAS 10 in the brought forward retained earnings and the revaluations reserves. The deferred income tax liability as at 31st March 2007 is analysed in note 27 to these financial statements.

## SLAS 19 (Revised) Leases

As of 1st April 2006 the Group adopted SLAS 19 on leases, under which leasehold lands were hitherto classified under property, plant & equipment was reclassified as leasehold property and is amortised over the remaining lease term.

## 2.3 Significant Accounting Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## Impairment of Goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate present value of those cash flows.

## Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

## Fair Value of Unquoted Equity Investments

The unquoted equity instruments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the company to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

## 2.4 Summary of Significant Accounting Policies

### 2.4.1 Foreign Currency Translations and Hedging

The financial statements are presented in Sri Lankan rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the Income Statement.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The resulting gains and losses are accounted for in the Income Statement.

The assets and liabilities of the foreign subsidiary is translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the

# Notes to the Financial Statements

translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

In respect of transactions which meet the conditions for special hedge accounting in relation to cash flow hedges, the portions of an exchange gain or loss on the hedge instrument that is determined to be an effective hedge is directly in equity through the statement of changes in equity and ineffective portion is recognized in the income statement.

## 2.4.2 Taxation

### a) Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the commissioner general of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

### b) Deferred Taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable

profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

c) Tax on dividend income from subsidiaries and associate is recognized as an expense in the Consolidated Income Statement.

## 2.4.3 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of that asset.

## 2.4.4 Intangible Assets (Other than Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following the initial recognition of the intangible assets, the cost model is applied requiring the assets to be carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs are not capitalised and

# Notes to the Financial Statements

expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function/nature of the intangible asset. Amortisation was commenced when the assets were available for use.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Intangible assets that are not yet available for sale are tested for impairments at each financial year end, even if there is no indication that the asset is impaired.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

## Research and Development Costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the company can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, its intention to complete and its ability to use or sell the assets, how the assets will generate future economic benefits, the availability of resources to complete the assets and the ability to measure reliably the expenditure during the development.

During the period of development, the assets are tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the

assets to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the assets begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales. During the period of which the asset is not yet in use it is tested for impairment annually.

## 2.4.5 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and conditions are accounted using the following cost formulae:-

### Raw Materials

- At actual cost on first-in-first out /weighted average basis.

### Foods and Beverages stocks

- At actual cost on weighted average basis

### Finished Goods & Work-in-Progress

- At the cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity.

### Consumables & Spares

- At actual cost on first-in-first out basis

### Goods-in-Transit & Other Stocks

- At actual cost.

## 2.4.6 Trade & Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less allowance for bad and doubtful receivables.

## 2.4.7 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

# Notes to the Financial Statements

## 2.4.8 Property, Plant and Equipment

### a) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less accumulated depreciation and less accumulated impairment in value.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to accumulated profits on retirement or disposal of the asset.

### b) Restoration Costs

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognised as an expense when incurred.

### c) Depreciation

The provision for depreciation is calculated by using a straight line method on the cost or valuation of all Property, Plant and Equipment other than freehold, in order to write off such amounts over the estimated useful lives. The principal annual rates used by the companies in the Group are as follows:

Freehold Buildings	1.5% - 5%
Leasehold Buildings	Over the lease term
Plant & Machinery	6% - 25%
Power Plant	Over 180 months
Furniture & Fittings	7% - 25%
Office & Factory Equipments	10% - 33.33%
Computer Hardware & Software	33.33 %
Motor Vehicles	20% - 25%

Crockery & Cutlery	50%- 100%
Revertment	5%

Buildings on Leasehold Land are depreciated over the remaining lease period (except for Serendib Hotel).

In Serendib Hotels PLC value of the buildings on the leasehold land is amortized in 20 equal annual instalments commencing from 1 April 1994 and ending in 31 March 2014. The Company has further obtained an extension of the lease period for 30 years commencing 1 April 2002. Accordingly the balance written down value of buildings as at 1st April 2000 is amortized over a period of 33 years. However, if the lease is not renewed after the date of termination on 31 March 2034, the Company is entitled to compensation for the cost of buildings.

No provision is made in the year of purchase and full year's depreciation is provided in the year of sale (except for Heladhanavi Ltd., where provision is made in the year of purchase and none in the year of sale).

### d) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

## 2.4.9 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery, awaiting capitalization.

Hemas Hospital (Pte) Ltd and Giddawa Hydro Power (Pvt) Ltd commenced projects to develop a chain of hospitals and hydro power plant respectively. The expenses that are of capital nature will be accounted as capital work-in-progress until the completion of the projects.

## 2.4.10 Leased Property

Leasehold property comprising of land use rights obtained on a long term basis, is stated at the recorded carrying values as at the effective date of Sri Lanka Accounting Standard 19 - Leases in line with Ruling of the Urgent Issues Task Force of The Institute of Chartered Accountants of Sri Lanka. Such carrying amounts are amortized over the remaining lease term or useful life of the leased property whichever is shorter.

## 2.4.11 Leases

### a) Finance Leases

Property, Plant and Equipment on finance leases, which

# Notes to the Financial Statements

effectively transfer to the Group substantially all of the risk and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of leased property or, if lower, at the present value of minimum lease payments. Capitalized leased assets are disclosed as Finance Leases under Property, Plant and Equipment and depreciated over the period the Group is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor together with interest payable over the period of lease is shown as a liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest payable over the period is transferred to an interest in suspense account. The interest element of the rental obligations pertaining to each financial year is charged to income statement over the period of lease.

## b) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term, are classified as operating leases.

Lease rentals paid under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

## 2.4.12 Investments

### a) Current Investments

Current investments are stated at lower of cost and market value determined on an aggregate portfolio basis.

The cost of an investment is the cost of acquisition inclusive of brokerage fees and stamp duty.

Unrealized gains and losses on current investments carried at market value i.e. reduction to market value and reversals of such reductions required to reflect current investments at the lower of cost and market value, are credited or charged to income statement.

### b) Long Term Investments

Quoted and unquoted investments in shares held on a long term basis are stated at cost.

The cost of the investment is the cost of acquisition inclusive of brokerage fees, duties and bank fees.

The carrying amount of long term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

In the Company's financial statements, investments in subsidiaries were accounted for in the equity method until 31st March 2006. With effect from 1st April 2006 in accordance with the revised SLAS 26 the investment in subsidiaries are accounted at the carrying value as that date and any investments made after 1st April 2006 are carried at cost, net of any provision for other than temporary diminution in value.

Investments in associates are carried at cost, net of any provision for other than temporary diminution in value.

### c) Investment Property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

# Notes to the Financial Statements

## c) Other Investments

Treasury bills and other interest bearing securities held for resale in the near future to benefit from short term market movements are accounted for at cost plus relevant proportion of the discounts or premiums.

## 2.4.13 Provisions

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## 2.4.14 Retirement Benefit Obligations

### a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt within the income statement.

In respect of those employees those who have not completed 5 years, the provision required at the end of 5 years is built up on an increasing sum of digit basis and accordingly the retirement benefit cost is charged to the income statement.

The gratuity liability is not externally funded nor actuarially valued. This item is grouped under Other Deferred Liabilities in the Balance Sheet.

However, as per the payment of Gratuity Act No. 12 of 1983 this liability only arises upon completion of 5 years of continued service.

### b) Defined Contribution Plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund

respectively. Some employees of the group are eligible for Mercantile Services Provident Society fund, for which the group contributes 12% of gross emoluments of employees.

## 2.4.15 Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset or cash-generating unit, unless the asset or cash-generating unit does not generate cash inflows that are largely independent of those from other assets or cash-generating units. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot "exceed" the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

# Notes to the Financial Statements

The following criteria are also applied in assessing impairment of specific assets:

## Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods.

## Intangible Assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level, as appropriate.

## Associates

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the income statement.

## 2.4.16 Income Statement

### Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts, value added taxes, and other sales taxes and after eliminating intra-group sales. The following specific criteria are used for the purpose of recognition of revenue.

#### a) Sale of Goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to buyer; with the Company retaining neither continuing managerial

involvement to the degree usually associated with ownership, nor effective control over the goods sold.

#### b) Rendering of Services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

#### c) Energy Supplied

Revenue from energy supplied is recognised, upon delivery of energy to Ceylon Electricity Board and will be adjusted for capacity charge for Minimum Guaranteed Energy Amount (MGEA) at the end of the calendar year, if there has been a curtailment. (Delivery of Electrical energy shall be completed when electrical energy meeting the specifications as set out in Power Purchase Agreement (PPA) is received at the metering point.)

#### d) Apartment and Food & Beverages Sales

Apartment revenue is recognised on the rooms occupied on a daily basis, and food & beverages sales are accounted for at the time of sales.

#### e) Turnover Based Taxes

Turnover based taxes include Value Added Tax, Economic Service charge and Turnover Tax, which is payable to Provincial Council in respect of trading activities and Tourism Development Levy, which is payable to the Ceylon Tourist Board by all companies licensed by the Board. Companies in the Group pay such taxes in accordance with the respective statutes.

#### f) Interest

Interest Income is recognised on an accrual basis.

#### g) Dividends

Dividend income is recognised on a cash basis (net of dividend tax).

#### h) Rental Income

Rental income is recognised on an accrual basis. Rental income arising on investment properties is accounted for on a straight line basis over the lease terms.

#### i) Others

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of Property, Plant & Equipment and other non current assets including investments have been accounted for in the income



## Notes to the Financial Statements

statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued Property, Plant and Equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

### **Expenditure Recognition**

**a)** Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

**b)** For the purpose of presentation of income statement the Company has adopted "the function of expenses" method on the basis that it presents fairly the elements of the Company's and Group's performance.

### **2.5 BUSINESS SEGMENT REPORTING**

A business segment is distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services that is subject to risk and returns that are different from those of other business segments. The accounting policies adopted for segment reporting are the same accounting policies adopted for preparing and presenting consolidated financial statements of the Group.

Inter Segment transfers are based on fair market prices.

# Notes to the Financial Statements

Year ended 31 March 2007

	Group		Company	
	2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs.
<b>3 REVENUE</b>				
<b>3.1 Summary</b>				
Sales	12,634,777,688	10,476,609,969	126,704,982	67,832,056
Less: Sales Taxes:				
Turnover Tax	(46,868,145)	(38,727,202)	-	-
Value Added Tax	(809,773,348)	(658,544,641)	-	-
	11,778,136,195	9,779,338,126	126,704,982	67,832,056
<b>3.2 Goods and Services Analysis</b>				
Sales of Goods	6,700,092,278	5,615,046,615	-	-
Rendering of Services	5,078,043,917	4,164,291,511	126,704,982	67,832,056
	11,778,136,195	9,779,338,126	126,704,982	67,832,056
Segment information is given in Note 40 to these financial statements.				
<b>4 DIVIDEND INCOME</b>				
Income from Investments - Related Parties	-	-	59,670,000	462,500,000
- Others	1,225,585	875,349	504,089	503,700
	1,225,585	875,349	60,174,089	463,003,700
<b>5 OTHER INCOME</b>				
Interest Income - Related Parties	-	-	28,072,914	8,035,327
- Others	89,780,417	73,382,683	18,831,994	25,352,121
Profit on Disposal of Investments	2,300,639	31,666,250	2,417,200	14,631,093
Surplus on Acquisition (Negative Goodwill)	33,738,643	53,560,388	-	-
Rental Income	5,459,888	4,046,801	-	-
Commission Income	6,717,839	6,853,703	-	-
Exchange Gain	44,418,868	20,990,802	-	-
Sundry Income	32,560,199	24,790,792	2,304,391	1,303,190
Travel Counter Income	21,604,316	18,994,807	-	-
Profit from Disposal of Trade Marks	15,000,000	-	-	-
	251,580,809	234,286,226	51,626,499	49,321,731

# Notes to the Financial Statements

Year ended 31 March 2007

	Group		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
<b>6 OPERATING PROFIT</b>				
<b>Stated after Charging /(Crediting)</b>				
Directors Emoluments	34,912,104	28,834,880	22,630,374	16,006,390
Auditors Fees and Expenses	4,081,025	3,123,080	694,125	551,362
Depreciation - Cost	378,236,631	333,125,073	22,296,816	19,927,981
- Valuation	24,035,746	29,591,287	-	-
- Leases	5,627,004	1,672,757	-	-
Donations	26,135,797	7,144,381	5,279,900	-
(Profit)/Loss on Disposal of Property, Plant & Equipment	(12,128,936)	(54,384)	(1,555,905)	(885,512)
Bad Debts Written - off	9,534,586	10,275,212	-	-
Provision for Doubtful Debts	22,982,586	3,491,561	-	-
Provision for Obsolete Stocks	7,011,247	6,075,744	-	-
Goodwill Written Off	3,916,956	14,657,012	-	-
(Profit)/Loss on Disposal of Associate Company	15,464,011	-	(1,494,700)	-
<b>Staff Costs includes:</b>				
Defined Benefit Plan Cost - Gratuity	34,382,389	25,491,137	2,299,215	4,276,031
Defined Contribution Plan Cost - MSPS/EPF/ETF	62,369,985	52,305,394	5,562,184	3,197,501
Other Staff Costs	617,808,744	551,343,163	23,688,285	15,860,217
Legal Fees	1,274,163	1,340,605	-	-
<b>7 FINANCE COST</b>				
Interest Expense on Overdrafts	68,803,653	40,470,149	132,700	248,229
Interest Expense on Loans & Borrowings - Rupee	65,429,269	80,850,518	42,467,030	11,577,848
- US\$	131,578,363	152,063,759	-	-
Debenture Interest	5,739,909	7,021,637	-	-
Bank Guarantee Charges	631,514	871,995	-	-
Finance Charges on Lease Liabilities	743,757	550,646	-	-
	272,926,465	281,828,704	42,599,730	11,826,077
<b>8 INCOME TAX EXPENSE</b>				
<b>Current Income Tax</b>				
Current Tax Expense on Ordinary Activities for the Year (8.1)	376,080,171	277,872,295	4,710,603	5,400,000
Under/(Over) Provision of Current taxes in respect of prior years	1,886,356	(1,222,775)	-	(1,440,320)
Share of Associate Company Income Tax	-	1,367,548	-	-
Tax on Dividends	6,000,000	12,721,854	-	-
<b>Deferred Income Tax</b>				
Deferred Taxation Charge/(Reversal) (8.2)	3,681,016	(8,900,839)	20,305,437	10,162,130
	387,647,543	281,838,083	25,016,040	14,121,810

# Notes to the Financial Statements

Year ended 31 March 2007

	Group		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
<b>8.1 Reconciliation between Current Tax Expense/ (Income) and the product of Accounting Profit</b>				
Accounting Profit Before Tax	1,407,184,717	1,247,374,305	92,650,963	1,007,922,632
Intra Group Adjustment/Share of Profits of subsidiary	66,335,535	515,535,205	-	(457,639,676)
	1,473,520,252	1,762,909,510	92,650,963	550,282,956
Aggregate Disallowed Items	447,166,939	399,462,430	67,526,565	39,663,582
Aggregate Allowable Expenses	(220,028,346)	(453,830,548)	(25,072,514)	(16,791,303)
Aggregate Allowable Income	(519,466,390)	(736,769,109)	(114,875,065)	(539,767,787)
Incentives not recognised in the Income Statements	(298,589)	(8,000,000)		(4,000,000)
Taxable Profit/(Loss)	1,180,893,866	963,772,283	20,229,949	29,387,448
Tax Losses Brought Forward and Utilized	(33,660,716)	(16,703,394)	(7,080,482)	(11,685,607)
	1,147,233,150	947,068,889	13,149,467	17,701,841
Current Income Tax Expense	376,080,171	277,872,295	4,710,603	5,400,000

The Group tax expense is based on taxable profit of each Group Company.

## 8.2 Deferred Tax Expense/(Income)

Deferred Tax Expense/(Income) arising due to				
Origination and Reversal of Timing Differences	3,681,016	(8,900,839)	20,305,437	10,162,130
	3,681,016	(8,900,839)	20,305,437	10,162,130

8.3 Deferred Tax has been computed using current effective tax rates applicable to each Group Company.

## 8.4 Applicable Tax Rates

As per the Inland Revenue Act, No. 38 of 2000, all resident companies are liable to effective Income Tax of 35% (2006 - 35%), with the exception of the below stated Companies.

- Trading income of Serendib Hotels PLC, Hotel Sigiriya PLC, Stafford Hotels PLC, Miami Beach Hotels Ltd., Serendib Leisure Management Ltd., Hemas Travels (Pte) Ltd. and Hemtours (Pte) Ltd., is taxed at 15%, while other income of these Companies are taxed at 35%. (2006 – 30%).
- Hemas Developments (Pte) Ltd., has obtained BOI approval under Section 17 and it enjoys a 7 year tax holiday commencing from year of assessment 1998/1999 in which the enterprise makes profits in relation to its transactions in that year or not later than 5 years from the date of its first commercial operation whichever is earlier. Thereafter the applicable tax rate would be 2% of Revenue.
- The profits and income of the Hemas Power (Pte) Ltd., (other than from sale of capital assets) is exempted from income tax for a period of 5 years commencing from the year of assessment in which the Company commences to carry on commercial operations, under section 21H of the Inland Revenue (Amendment) Act, No. 37 of 2003 (Provided that the Company, qualify the criteria specified in the said section). Commercial operations would be deemed to commence in the year in which the issued share capital of the Company reaches Rs. 100 million before 01st April 2008. The issued share capital of the Company as at 31st March 2007, amounted to Rs. 802 million.
- Pursuant to the agreement dated 28th August 2003, entered into with Board of Investment under section 17 of the Board of Investment Law,

# Notes to the Financial Statements

Year ended 31 March 2007

Heladhanavi Ltd., is exempt from tax for a period of 10 years from the year in which the Company commences to make profits or any year of assessment not later than two years from the date of commencement of commercial operations of the enterprise, which ever is earlier. After the expiration of the said, tax exemption period the income of the enterprise shall be charged at the rate of 15%.

However, other operating income of the Company is liable for income tax in accordance with the provisions of the Inland Revenue Act.

- Pursuant to agreement entered into with Board of Investment under section 17 of the Board of Investment Law No. 4 of 1978 Vishwa BPO (Pte) Ltd. & Hemas Hospitals (Pte) Ltd. are exempt from income tax for a period of three (3) years and five (5) years respectively, reckoned from the year of assessment, in which the company commences to make profits or any year of assessment not later than two years from the date of commencement of commercial operations of the company, whichever is earlier.  
After the expiration of the tax exempted period, profits are charged at ten percentage (10%) for the next two (2) years.  
After the expiration of the above mentioned tax rate exemption of 10%, the companies' profits are liable for tax at 20% thereon.
- Companies where the taxable income is less than Rs. 5 million in any year of assessment are liable to income tax at a rate of 15%, in that year (2006 - 20%) .

## 9 EARNINGS PER SHARE

**9.1** Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

**9.2** The following reflects the income and share data used in the Basic Earnings Per Share computation.

	Group		Company	
	2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated
<b>Amount Used as the Numerator:</b>				
Net Profit for the year	1,005,727,066	958,599,259	67,634,923	993,800,822
Less: Preference Dividends	(10,002,740)	(11,753,425)	-	-
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	995,724,326	946,845,834	67,634,923	993,800,822
	2007 Number	2006 Number	2007 Number	2006 Number
<b>Number of Ordinary Shares Used as Denominator:</b>				
Weighted Average number of Ordinary Shares in issue				
Applicable to Basic Earnings Per Share	100,530,310	99,458,976	100,530,310	99,458,976

**9.3** There were no potentially dilutive ordinary shares outstanding at any time during the year.

# Notes to the Financial Statements

Year ended 31 March 2007

		2007		2006	
		%	Rs.	%	Rs.
<b>10</b>	<b>DIVIDEND PER SHARE - Group/Company</b>				
	<b>10.1 Dividends Paid</b>				
	Interim Paid - 1st Interim				
	- Exempt Profit		126,214,173		363,435
	- Liable Profit		-		124,067,570
	- Tax on Dividends		-		(12,406,757)
		12.5	126,214,173	12.5	112,024,248
	- 2nd Interim				
	- Exempt Profit		99,000,000		124,275,561
	- Liable Profit		27,512,130		-
	- Tax on Dividends		(2,751,213)		-
		12.5	123,760,917	12.5	124,275,561
	<b>Total Dividends</b>				
	- Gross	25.00	252,726,303	25.00	248,706,566
	- Tax on Dividends		(2,751,213)		(12,406,757)
	- Net		249,975,090		236,299,809

## 10.2 Dividend Per Share

- 1st Interim	1.25	1.25
- 2nd Interim	1.25	1.25
- Final Proposed	-	-

**10.3** The interim dividends have been paid on 15th November 2006 and 27th March 2007.

# Notes to the Financial Statements

Year ended 31 March 2007

## 11 PROPERTY, PLANT & EQUIPMENT

### 11.1 Group Gross Carrying Amount

	Balance as at 01.04.2006 Rs.	Additions/ Transfers/ Acquisitions Rs.	Disposals/ Transfers Rs.	Reclassified as Investment Property Rs.	Balance as at 31.03.2007 Rs.
<b>At Cost /Cost incurred since Last Revaluation</b>					
Freehold Land	115,592,647	20,253,156	(100,000,000)	(5,292,000)	30,553,803
Freehold Buildings	28,282,566	7,223,938	(3,782,742)	(4,708,000)	27,015,762
Building on Leasehold Land	62,152,048	1,396,754	-	-	63,548,802
Plant & Machinery	3,339,083,076	44,691,014	(19,353,157)	-	3,364,420,933
Furniture & Fittings	256,029,507	33,505,189	(39,886,220)	-	249,648,476
Office & Factory Equipment	150,844,942	24,060,560	(10,624,944)	-	164,280,558
Computer Hardware & Software	260,892,418	28,630,492	(4,735,374)	-	284,787,536
Motor Vehicles	214,355,412	86,401,983	(36,821,452)	-	263,935,943
Crockery & Cutlery	10,583,350	-	(10,265,310)	-	318,040
Revertment	19,108,922	-	-	-	19,108,922
	4,456,924,888	246,163,086	(225,469,199)	(10,000,000)	4,467,618,775
<b>At Valuation</b>					
Freehold Land	205,158,682	272,693,182	-	(43,585,493)	434,266,371
Freehold Buildings	707,671,389	6,584,650	-	(77,742,500)	636,513,539
Buildings on Leasehold Land	244,527,625	-	-	-	244,527,625
	1,157,357,696	279,277,832	-	(121,327,993)	1,315,307,535
<b>Assets on Finance Leases</b>					
Motor Vehicles	9,711,218	12,359,037	(3,575,529)	-	18,494,726
	9,711,218	12,359,037	(3,575,529)	-	18,494,726
<b>Total Value of Assets</b>	5,623,993,802	537,799,955	(229,044,728)	(131,327,993)	5,801,421,036
<b>Depreciation</b>					
	Balance as at 01.04.2006 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Reclassified as Investment Property Rs.	Balance as at 31.03.2007 Rs.
<b>At Cost</b>					
Freehold Buildings	2,095,352	145,926	(1,327,488)	-	913,790
Building on Leasehold Land	-	2,120,910	-	-	2,120,910
Plant & Machinery	491,369,363	233,433,262	(13,550,773)	-	711,251,852
Furniture & Fittings	118,060,322	26,300,266	(21,189,058)	-	123,171,530
Office & Factory Equipment	74,150,424	16,378,647	(2,747,951)	-	87,781,120
Computer Hardware & Software	84,443,478	68,490,573	(4,496,781)	-	148,437,270
Motor Vehicles	142,113,823	30,392,260	(31,323,079)	-	141,183,004
Crockery & Cutlery	7,074,043	127,677	(5,891,720)	-	1,310,000
Revertment	7,941,670	847,110	(7,939,773)	-	849,007
	927,248,475	378,236,631	(88,466,623)	-	1,217,018,483
<b>At Valuation</b>					
Freehold Buildings	18,855,183	15,368,694	-	(3,887,125)	30,336,752
Building on Leasehold Land	9,243,553	8,667,052	-	-	17,910,605
	28,098,736	24,035,746	-	(3,887,125)	48,247,357
<b>Assets on Finance Leases</b>					
Motor Vehicles	5,078,147	5,627,004	(2,594,863)	-	8,110,288
	5,078,147	5,627,004	(2,594,863)	-	8,110,288
<b>Total Depreciation</b>	960,425,358	407,899,381	(91,061,486)	(3,887,125)	1,273,376,128
<b>Capital Work-In-Progress</b>					
	1,370,338	176,848,098	(1,341,449)	-	176,876,987
	1,370,338	176,848,098	(1,341,449)	-	176,876,987
	2006 Rs.				2007 Rs.
<b>Net Book Values</b>					
At Cost	3,531,046,751				3,427,477,279
At Valuation	1,129,258,960				1,267,060,178
Assets on Finance Lease	4,633,071				10,384,438
<b>Total Carrying Amount</b>	4,664,938,782				4,704,921,895

## Notes to the Financial Statements

Year ended 31 March 2007

- 11.1.1** The Land and Buildings of Hemas Manufacturing (Pte) Ltd., Stafford Hotels PLC & Miami Beach Hotels Ltd., were last revalued during the financial year 2004/2005 by Mr. D.S.A. Senaratne (A.I.V.) an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 31 March 2005. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve.
- 11.1.2** The Land and Buildings of Peace Haven Resort Ltd., was last revalued at the beginning of the financial year 2006/2007 by Mr. D.S.A. Senaratne (A.I.V.) an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 01 April 2006. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve. The next revaluation will be carried out in accordance with the group policy.
- 11.1.3** During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 614,648,053/- (2006 - Rs. 399,200,916/-) of which Rs. 5,627,004/- (2006 - Rs. 352,350/-) was acquired by means of finance leases. Cash payments amounting to Rs. 365,415,804/- (2006 - Rs. 337,127,033/-) was paid during the year for purchases of Property, Plant & Equipment.



## Notes to the Financial Statements

Year ended 31 March 2007

### 11.2 Company

#### Gross Carrying Amount

	Balance as at 01.04.2006 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03.2007 Rs.
<b>At Cost</b>				
Roadways	4,858,512	2,117,176	-	6,975,688
Furniture & Fittings	6,069,582	2,495,860	-	8,565,442
Office Equipment	8,892,713	1,245,553	(140,722)	9,997,544
Computer Hardware and Software	56,184,217	11,515,050	-	67,699,267
Motor Vehicles	10,033,335	9,032,813	(5,943,133)	13,123,015
<b>Total Value of Assets</b>	<b>86,038,359</b>	<b>26,406,452</b>	<b>(6,083,855)</b>	<b>106,360,956</b>

#### Depreciation

	Balance as at 01.04.2006 Rs.	Additions Rs.	Disposals Rs.	Balance as at 31.03.2007 Rs.
<b>At Cost</b>				
Furniture & Fittings	1,406,242	754,857	-	2,161,099
Office Equipment	4,821,749	1,001,597	-	5,823,346
Computer Hardware and Software	10,219,118	18,353,937	(95,953)	28,477,102
Motor Vehicles	3,656,809	2,186,425	(3,798,133)	2,045,101
<b>Total Depreciation</b>	<b>20,103,918</b>	<b>22,296,816</b>	<b>(3,894,086)</b>	<b>38,506,648</b>

	2006 Rs.	2007 Rs.
<b>Net Book Values</b>		
At Cost	65,934,441	67,854,308
<b>Total Carrying Amount</b>	<b>65,934,441</b>	<b>67,854,308</b>

**11.2.1** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 26,406,452/- (2006 - Rs. 42,628,056/-) of which Rs. 26,406,452/- (2006 - Rs. 37,208,670/-) was acquired by means of cash.

# Notes to the Financial Statements

Year ended 31 March 2007

## 12 INVESTMENT PROPERTY

	Group		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs. Restated
Investment Properties at Fair Value at the Beginning of the Year	570,152,108	-	207,744,975	-
Reclassified from Property, Plant & Equipment	127,440,868	514,576,549	-	130,942,000
Change in Fair Value of Investment Properties on adoption of SLAS 40- Investment Property	102,731,883	22,031,451	-	-
	800,324,859	536,608,000	207,744,975	130,942,000
Additions during the Year	-	10,834,308	385,493	-
Change in Fair value of Investment Property during the Year	163,385,091	22,709,800	50,579,482	76,802,975
Investment Properties at Fair Value at the end of the Year	963,709,950	570,152,108	258,709,950	207,744,975

The groups' policy is to revalue Investment Properties every three years, accordingly the Investment Properties of Hemas Holdings PLC & Hemas Development (Pte) Ltd., were revalued during the financial year 2004/2005 by Mr. D.S.A. Senaratne (A.I.V.) an independent valuer. The results of such revaluation was incorporated in these financial statements from its effective date which is 31 March 2005. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve. After adoption of SLAS - 40 the surplus was transferred from revaluation reserve to retained earnings.

The Directors have assessed the fair value of the Investment Properties of Hemas Developments as at 31 March 2006 & 2007 based on earning growth method. The fair value of the Investment Properties of Hemas Holdings PLC as at 31 March 2006 & 2007 was assessed by a revaluation carried out by Mr. D.S.A. Senaratne (A.I.V.) an independent valuer on an open market value for existing use basis, the resulting surplus in fair value is included in the Income Statement.

13 INTANGIBLE ASSETS	Group	
	2007 Rs.	2006 Rs.
<b>13.1 Non Current</b>		
Goodwill	20,664,878	14,327,963
Brands	129,000,000	74,000,000
Project Development Expenses	5,898,074	18,939,865
	155,562,952	107,267,828
<b>13.1.1 Goodwill</b>		
At the beginning of the year	14,327,963	9,784,437
Acquired during the year	10,253,871	19,200,538
Impairment/Amortisation during the Year	(3,916,956)	(14,657,012)
At the end of the Year	20,664,878	14,327,963
<b>13.1.2 Brands</b>		
At the beginning of the year	74,000,000	25,000,000
Acquired during the year	55,000,000	49,000,000
Impairment/Amortisation during the Year	-	-
At the end of the Year	129,000,000	74,000,000
<b>13.1.3 Project Development Expenses</b>		
At the beginning of the year	18,939,865	5,551,333
Acquired during the year	5,898,074	13,388,532
Impairment/Written Off during the Year	(18,939,865)	-
At the end of the Year	5,898,074	18,939,865

Hemas Group and its Subsidiaries annually carry out an impairment test on all its intangible assets. Impairment tests are carried out as follows:

- Goodwill - The business acquisition to which the goodwill is attributable is valued based on the earnings growth method. Assumptions applied in such computations are reviewed each year.
- Brands - Brands are valued based on the earnings growth method, and assumptions applied are reviewed each year.
- Project Development Expenses - These include all expenditure attributable to the intangible asset during its development stage. The technical feasibility of completing the project and the business case for future economic benefits are reassessed each year.

# Notes to the Financial Statements

Year ended 31 March 2007

## 14 LEASEHOLD PROPERTY

	Group	
	2007	2006
	Rs.	Rs.
Cost/Valuation		
At the beginning of the year	76,838,370	50,838,370
Acquisition of Leasehold Rights	-	26,000,000
At the end of the Year	76,838,370	76,838,370
<b>Amortisation</b>		
At the beginning of the year	1,492,551	-
Amortised during the Year	4,303,814	1,492,551
At the end of the Year	5,796,365	1,492,551
Carrying Value at the end of the Year	71,042,005	75,345,819

Serendib Hotels PLC obtained leasehold rights to land situated in Bentota for 30 years from Ceylon Tourist Board. Based on the Ruling 11 of Urgent Issues Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka, it was stated at revalued amounts. As a result of a revision to said ruling, the Company now carries such leasehold rights to land, at the values recorded in the balance sheet as at the effective date of SLAS 19- Leases.

The leasehold rights to land is disclosed under non current assets under Leasehold Property with effect from the current financial year with comparative amounts being changed to conform to current presentation. The revised UITF ruling does not permit further revaluation of Leasehold Property. An amount of Rs. 50.8 Mn is remaining in the equity under Revaluation Surplus & Minority Interest relating to previous revaluation of Leasehold rights to land. Last such revaluation was carried out by Mr. D.S.A. Senaratne (A.I.V.) an independent valuer in the year 2004/05.

This also includes an amount of Rs. 26 Mn (Carrying Value - Rs. 23.5 Mn) paid in respect of acquisition of leasehold rights from Nimesha Enterprises by Hemas Manufacturing.

## 15 INVESTMENT IN SUBSIDIARIES

	Group Holding		Company Holding		Company	
	2007	2006	2007	2006	2007	2006
	%	%	%	%	Rs.	Rs.
<b>15.1 Non-Quoted Investments</b>						
Hemas Corporate Services (Pte) Ltd	100.0	100.0	100.0	100.0	16,890,699	16,890,699
Hemas Developments (Pte) Ltd	100.0	100.0	50.0	50.0	632,316,443	632,316,443
Hemas Power (Pte) Ltd	100.0	100.0	2.2	2.2	374,693,081	374,693,081
Hemas Manufacturing (Pte) Ltd	100.0	100.0	100.0	100.0	890,662,863	890,662,863
Hemas Marketing (Pte) Ltd	100.0	100.0	100.0	100.0	650,031,275	650,031,275
Hemas Foods (Pte) Ltd	100.0	100.0	100.0	100.0	24,845,575	24,845,575
Hemas Pharmaceuticals (Pte) Ltd	100.0	100.0	100.0	100.0	380,947,388	380,947,388
Hemas Healthcare (Pte) Ltd	100.0	100.0	100.0	100.0	23,956,545	23,956,545
Hemas Travels (Pte) Ltd	100.0	100.0	100.0	100.0	123,876,586	123,876,586
Hemas International Freight (Pte) Ltd	100.0	100.0	100.0	100.0	61,314,987	61,314,987
Hemas Air Services (Pte) Ltd	100.0	100.0	100.0	100.0	64,687,574	64,687,574
Forbes Air Services (Pte) Ltd	100.0	100.0	100.0	100.0	97,581,714	97,581,714
Discover the World Marketing (Pte) Ltd	100.0	100.0	100.0	100.0	4,665,732	4,665,732
Hemas Aviation (Pte) Ltd	100.0	100.0	100.0	100.0	1,909,963	1,909,963
Exchange & Finance Investments Ltd	100.0	100.0	100.0	100.0	9,411,793	9,411,793
Hemtours (Pte) Ltd	100.0	100.0	100.0	100.0	209,911,882	209,911,882
Leisure Asia Investments Ltd	100.0	100.0	100.0	100.0	257,559,015	257,559,015
Peace Haven Resorts Ltd	95.5	95.5	95.5	95.5	336,454,612	336,454,612
Hemas Shipping (Pte) Ltd	100.0	100.0	100.0	100.0	300,000	300,000
ACX international (Pvt) Ltd	100.0	100.0	100.0	-	7,000,000	-
Mowbray Hotels Ltd	89.0	-	89.0	-	46,201,442	-
					4,215,219,169	4,162,017,728
<b>15.2 Quoted Investments</b>						
Serendib Hotels PLC	63.0	54.0	27.9	13.6	120,755,299	93,376,280
Total					4,335,974,468	4,255,394,008

**15.3** The companies with less than 50% voting power is considered as subsidiaries, as control exist over their financial and operating policies in line with SLAS 26.

# Notes to the Financial Statements

Year ended 31 March 2007

## 16 INVESTMENTS IN ASSOCIATES

### 16.1 Group

	Holdings %		Carrying Value	Share of Profit Reserves net of Dividends	Disposal Transfer of Investment	Carrying Value
	2007	2006	2006			2007
			Rs.	Rs.	Rs.	Rs.
<b>Non-Quoted</b>						
Mowbray Hotels Ltd*	-	39.6%	11,092,091	16,339,735	(27,431,826)	-
Hela Clothing (Pte) Ltd	-	30.0%	48,583,815	(1,625,104)	(46,958,711)	-
E-Channelling Ltd**	24.6%	24.6%	42,933,320	-	-	42,933,320
			102,609,226	14,714,631	(74,390,537)	42,933,320

\*\* The share of Profit/(Loss) of the Company has not been included in the carrying value of the Investment, as it is insignificant. However the investment was tested for impairment.

	Holding %		No. of Shares		2007	2006
16.2 Company	2007	2006	2007	2006	Rs.	Rs.
Mowbray Hotels Ltd*	-	39.6%	-	2,820,691	-	13,045,547
Hela Clothing (Pte) Ltd	-	30.0%	-	3,000,000	-	30,000,000
				-		43,045,547

\* During the current year Mowbray Hotels Ltd. has become a Subsidiary.

## 17 INVESTMENT IN JOINT VENTURE

	Group Holdings		Company Holdings		Company	
	%	%	%	%	2007	2006
	2007	2006	2007	2006	Rs.	Rs.
Hellmann Worldwide Logistics (Pvt) Ltd	49%	-	49%	-	8,359,120	-
Heladhanavi Ltd.	50%	50%	-	-	-	-
					8,359,120	-

## 18 OTHER INVESTMENTS

		Group		Company	
		2007	2006	2007	2006
		Rs.	Rs.	Rs.	Rs.
<b>Summary</b>					
<b>Non Current</b>					
Investments in Equity Securities	18.1/18.2	23,817,628	15,042,908	13,405,100	2,905,000
Investments in Debentures	18.1.1	-	-	-	-
Investments in Fixed Deposits		20,000	20,430,000	-	-
		23,837,628	35,472,908	13,405,100	2,905,000
<b>Current</b>					
Investment in Equity Securities	18.1.2/18.2.1	356,376	311,237	48,642	48,642
Investments in Fixed Deposits		125,185,979	-	-	-
		125,542,355	311,237	48,642	48,642
<b>Total Carrying Value of Other Investments</b>		<b>149,379,983</b>	<b>35,784,145</b>	<b>13,453,742</b>	<b>2,953,642</b>

# Notes to the Financial Statements

Year ended 31 March 2007

## 18.1 Investments in Equity Securities-Non Current

Group	No of Shares		Carrying	Market	Carrying	Market
	2007	2006	Value	Value	Value	Value
			2007	2007	2006	2006
		Rs.	Rs.	Rs.	Rs.	Rs.
<b>a) Quoted</b>						
Overseas Realty (Ceylon) Ltd	1,000	1,000	10,000	13,000	10,000	20,000
Eden Hotels Lanka Ltd	127	127	861	1,461	861	2,000
Galadari Hotels Ltd	2,000	2,000	18,750	21,500	18,750	29,325
Blue Diamond Jewellers Ltd	1,300	1,300	3,900	3,640	3,900	1,800
Royal Palm Beach Hotels	85	85	676	3,358	676	3,379
Kotmale Holdings Ltd	40,000	40,000	400,000	470,000	400,000	540,000
<b>Total Investment in Quoted Equity Securities</b>			<b>434,187</b>	<b>512,959</b>	<b>434,187</b>	<b>3,971,504</b>

Group	Carrying	Carrying
	Value	Value
	2007	2006
	Rs.	Rs.
<b>b) Non-Quoted</b>		
Felix Hotels Ltd	25,930	1,751,210
Rainforest Ecology (Pvt) Ltd	10,000,000	10,000,000
SLFFA Cargo Services Ltd	357,511	357,511
National Equity Fund	-	2,500,000
CT Capital (Pvt) Ltd	13,000,000	-
	<b>23,383,441</b>	<b>14,608,721</b>
<b>Total Equity Investments (Group - Non Current)</b>	<b>23,817,628</b>	<b>15,042,908</b>

### 18.1.1 Investment in Debentures

Group	No of Debentures		Carrying	Carrying
	2007	2006	Value	Value
			2007	2006
		Rs.	Rs.	
Ocean View Ltd (6% interest)	-	149,722	-	1,497,220
Less: Provision for fall in value of investments	-	-	-	(1,497,220)
	-	<b>149,722</b>	-	-

## Notes to the Financial Statements

Year ended 31 March 2007

### 18.1.2 Investments in Equity Securities - Current

Group	No of Shares		Carrying	Market	Carrying	Market
	2007	2006	Value	Value	Value	Value
		Rs.	2007	2007	2006	2006
			Rs.	Rs.	Rs.	Rs.
<b>a) Quoted</b>						
John Keells Holdings Ltd	726	726	48,642	112,530	48,642	114,708
Aitken Spence & Co. Ltd	133	133	34,000	50,540	34,000	45,486
Lanka Milk Foods Ltd	100	100	2,540	3,950	3,200	2,600
Harischandra Mills Ltd	100	100	11,500	42,500	11,500	40,000
Millers Ltd	500	500	24,000	342,000	24,000	350,000
Cargills Ltd	200	200	17,200	90,000	17,200	112,000
Keells Food Products Ltd	100	100	1,875	4,975	1,875	3,400
Elephant Lite Corporation Ltd	100	100	700	725	700	725
Soy Foods (F&W) Ltd	100	100	3,550	6,500	3,550	8,475
Muller & Phipps Ltd	100	100	1,500	100	1,500	130
Chemanax Ltd	174	174	12,975	33,104	12,975	19,027
John Keells Ltd	284	284	13,000	24,211	13,000	29,252
Glaxo Ceylon Ltd	150	150	4,500	-	4,500	-
Shaw Wallace Ltd	100	100	6,800	17,000	6,800	19,500
Ceylon Cold Stores Ltd	300	300	4,025	45,600	4,025	46,200
Ceylon Tobacco Ltd	-	196	-	-	3,900	11,858
Nestle Lanka Ltd	100	400	22,313	26,000	17,625	71,200
Lankem Ceylon Ltd	1,600	1,600	20,800	58,800	20,800	86,400
E.B. Creasy Ltd	150	150	23,000	21,150	23,000	39,000
J.L. Morrisons Ltd	130	130	30,550	54,600	30,550	66,500
Hayleys Ltd	396	396	26,240	56,232	26,240	40,392
Chemical Industries Ceylon Ltd	148	148	11,525	13,320	11,525	26,492
Lambretta Ceylon Ltd	100	-	1,069	-	-	-
C.W. Mackie & Company Ltd	100	-	2,236	2,375	-	-
Ceylon Tea Services Ltd	200	-	55,784	36,000	-	-
			380,324	1,042,212	321,107	1,133,345
<b>Less: Provision for fall in Value</b>			(30,823)	-	(16,745)	-
<b>Total Equity Investments (Group - Current)</b>			349,501	1,042,212	304,362	1,133,345
<b>b) Non Quoted</b>						
Coca Cola Beverages Sri Lanka Ltd.	100	100	5,275	-	5,275	-
Carsons Marketing Ltd	100	100	1,600	-	1,600	-
	-	-	6,875	-	6,875	-
<b>Total Investments</b>			356,376	1,042,212	311,237	1,133,345

## Notes to the Financial Statements

Year ended 31 March 2007

### 18.2 Investment in Equity Securities - Non Current

Company	No of Shares		Carrying	Market	Carrying	Market
	2007	2006	Value	Value	Value	Value
			2007	2007	2006	2006
			Rs.	Rs.	Rs.	Rs.
<b>a. Quoted</b>						
Overseas Realty (Ceylon) Ltd	500	500	5,000	6,500	5,000	10,000
Kotmale Holdings Ltd	40,000	40,000	400,000	470,000	400,000	540,000
			405,000	476,500	405,000	3,925,000
<b>b. Non - Quoted</b>						
National Equity Fund	-	250,000	-	-	2,500,000	-
CT Capital (Pvt) Ltd	1,300,000	-	13,000,000	-	-	-
Giddawa Hydro Power (Pvt) Ltd	1	-	100	-	-	-
			13,000,100	-	2,500,000	-
<b>Total Carrying Value of Equity Investment (Company - Non Current)</b>			13,405,100	-	2,905,000	3,925,000

### 18.2.1 Investment in Equity Securities - Current

	No of Shares		Carrying	Market	Carrying	Market
	2007	2006	Value	Value	Value	Value
			2007	2007	2006	2006
			Rs.	Rs.	Rs.	Rs.
John Keells Holdings Ltd	726	726	48,642	112,530	48,642	72,419
<b>Total Carrying Value of Equity Investment (Company - Current)</b>			48,642	112,530	48,642	72,419

## 19 INVENTORIES

	Group	
	2007	2006
	Rs.	Rs.
Raw Materials	181,064,610	83,810,863
Work in Progress	24,167,234	16,143,896
Finished Goods & Other Stock*	741,697,877	619,802,921
Goods In Transit	47,434,829	35,356,333
	994,364,550	755,114,013
Less: Provision for Unrealized Profit	(3,334,316)	(9,752,577)
	991,030,234	745,361,436

\* Finished Goods & other Stock are net of provision for slow moving and obsolete stocks.

# Notes to the Financial Statements

Year ended 31 March 2007

	Group		Company	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
<b>20 TRADE AND OTHER RECEIVABLES</b>				
<b>20.1 Summary</b>				
Trade Debtors				
Related Parties (20.2)	-	-	33,479,280	-
Others	1,869,033,157	1,646,208,415	3,206,860	-
Ceylon Electricity Board	732,373,833	547,478,218	-	-
Less: Provision for Doubtful Debts	(46,326,963)	(20,648,632)	-	-
	2,555,080,027	2,174,076,229	36,686,140	-
Other Debtors	412,937,340	149,040,939	25,695,368	2,982,303
Advances and Prepayments	292,407,240	98,174,134	1,399,978	7,879,473
Loans to Company Officers (20.3)	43,742,550	29,560,373	11,366,756	4,429,141
	3,304,167,157	2,449,813,447	75,148,242	15,290,917

## 20.2 Trade Dues from Related Parties

	Relationship	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Hemas Pharmaceuticals (Pte) Ltd	Subsidiary	-	-	821,097	-
Hemas Corporate Services (Pte) Ltd	Subsidiary	-	-	588,429	-
Hemas International Freight (Pte) Ltd	Subsidiary	-	-	10,190,877	-
Hemas Travels (Pte) Ltd	Subsidiary	-	-	7,079,369	-
Hemas Power (Pte) Ltd	Subsidiary	-	-	100,575	-
Hemas Marketing (Pte) Ltd	Subsidiary	-	-	399,600	-
Hemas Air Services (Pte) Ltd.	Subsidiary	-	-	6,972,154	-
Vishwa BPO (Pte) Ltd.	Subsidiary	-	-	5,270,283	-
Hemtours (Pte) Ltd.	Subsidiary	-	-	2,011,748	-
Exchange & Finance Investment Ltd.	Subsidiary	-	-	7,188	-
Giddawa Hydro Power (Pvt) Ltd.	Subsidiary	-	-	37,960	-
		-	-	33,479,280	-

## 20.3 Loans to Company Officers:

Summary		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Balance as at the Beginning of the Year		29,560,373	24,822,282	4,429,141	2,521,258
Loans Granted During the Year		36,048,739	20,114,963	10,516,800	5,796,435
Less: Repayments		(21,866,562)	(15,376,872)	(3,579,185)	(3,888,552)
Balance as at the end of the Year		43,742,550	29,560,373	11,366,756	4,429,141

## 21 LOANS DUE FROM RELATED PARTIES - Company

	Relationship	Current	Non-Current	Total	Total
		2007 Rs.	2007 Rs.	2007 Rs.	2006 Rs.
Hemas Pharmaceuticals (Pte) Ltd.	Subsidiary	89,500,000	-	89,500,000	33,540,997
Hemas Healthcare (Pte) Ltd.	Subsidiary	1,000,000	12,183,718	13,183,718	68,000,000
Hemas Corporate Services (Pte) Ltd.	Subsidiary	2,499,999	-	2,499,999	23,746,209
Hemas Power (Pte) Ltd.	Subsidiary	48,737,636	-	48,737,636	64,090,783
Hemas Marketing (Pte) Ltd.	Subsidiary	5,000,000	-	5,000,000	33,945,862
Hemas Development (Pte) Ltd.	Subsidiary	-	-	-	31,400,000
Hemas International Freight (Pte) Ltd.	Subsidiary	-	-	-	23,000,000
Hemas Travels (Pte) Ltd.	Subsidiary	-	-	-	15,000,000
Hemas Air Services (Pte) Ltd.	Subsidiary	42,000,000	-	42,000,000	-
Hemas Manufacturing (Pte) Ltd.	Subsidiary	60,000,000	-	60,000,000	-
ACX International (Pvt) Ltd.	Subsidiary	600,000	-	600,000	-
Hellmann Worldwide Logistics (Pvt) Ltd.	Joint Venture	6,000,000	-	6,000,000	-
		255,337,635	12,183,718	267,521,353	292,723,851



# Notes to the Financial Statements

Year ended 31 March 2007

## 22 AMOUNTS DUE FROM RELATED PARTIES

	Relationship	Group		Company	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Hemtours (Pte) Ltd.	Subsidiary	-	-	877,978	4,614,638
Hemas Marketing (Pte) Ltd.	Subsidiary	-	-	2,550,000	1,463,875
Hemas International Freight (Pte) Ltd.	Subsidiary	-	-	9,527,601	4,473,809
Spectrum Marketing (Pte) Ltd.	Subsidiary	-	-	(6,008)	-
Hemas Pharmaceuticals (Pte) Ltd.	Subsidiary	-	-	33,601,084	58,527,940
Hemas Corporate Services (Pte) Ltd.	Subsidiary	-	-	2,575,770	1,290,282
Hemas Developments (Pte) Ltd.	Subsidiary	-	-	252,091	111,981
Hemas Healthcare (Pte) Ltd.	Subsidiary	-	-	102,373	-
Hemas Air Services (Pte) Ltd.	Subsidiary	-	-	2,520,827	4,891,221
Hela Clothing (Pte) Ltd.	Associate	-	631,489	-	544,924
Hemas Travels (Pte) Ltd.	Subsidiary	-	-	1,386,381	6,409,949
Hemas Power (Pte) Ltd.	Subsidiary	-	-	(34,061)	-
Forbes Air Services (Pte) Ltd.	Subsidiary	-	-	86,128	-
Exchange and Finance Investment Ltd.	Subsidiary	-	-	-	10,781
Vishwa BPO (Pte) Ltd.	Subsidiary	-	-	4,267,196	-
Hellmann Worldwide Logistics (Pte) Ltd.	Joint Venture	-	-	643,766	-
ACX International (Pvt) Ltd.	Subsidiary	-	-	9,664	-
		-	631,489	58,360,790	82,339,400

## 23 SHARE CAPITAL

### 23.1 Authorised

			Par Value Rs.	Company 2007 Number	Company 2006 Number
Number of Shares	Ordinary Shares	10/-		200,000,000	200,000,000
				Rs.	Rs.
Nominal Value	Ordinary Shares	10/-		2,000,000,000	2,000,000,000

### 23.2 Issued and Fully Paid

			Par Value Rs.	At the beginning of the Year 01.04.2006	Issued/(Redeemed) for Cash During the Year	At the End of the Year 31.03.2007
				Number	Number	Number
Number of Shares	Ordinary Shares	10/-		99,801,249	1,506,875	101,308,124
	12% Cumulative Redeemable Preference shares			9,166,667	(1,666,667)	7,500,000
				108,967,916	(159,792)	108,808,124
				Rs.	Rs.	Rs.
Nominal Value	Ordinary Shares	10/-		998,012,490	15,068,750	1,013,081,240
	12% Cumulative Redeemable Preference shares			91,666,665	(16,666,665)	75,000,000
				1,089,679,155	(1,597,915)	1,088,081,240

### 23.3 Rights, Preferences and Restrictions of Classes of Capital

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at a meeting of the Company.

# Notes to the Financial Statements

Year ended 31 March 2007

	Group		Company	
	2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated
<b>24 RESERVES</b>				
<b>Summary</b>				
<b>(a) Revaluation &amp; Other Capital Reserve</b>				
Opening Balance as Previously Reported	567,822,473	580,389,548	372,663,859	622,906,729
Revaluation Reserve during the Year	118,090,002	(1,193,490)	-	-
Transfer to/(from) during the Year	62,498,689	28,150,663	-	-
Net Gain/(Loss) Recognised Directly in Equity	(38,622,545)	(39,524,248)	-	-
Effect of Adopting SLAS 40 (Investment Property)	(19,151,023)	-	-	(41,193,306)
Adjustment in respect of changes in Group Holding	(2,451,588)	-	-	-
Capital Reserve of Subsidiaries	-	-	-	(209,049,564)
	<b>688,186,008</b>	<b>567,822,473</b>	<b>372,663,859</b>	<b>372,663,859</b>
<b>(b) Capital Redemption Reserve</b>				
Balance at the Beginning of the Year	8,333,335	-	-	-
Transfer from Accumulated Profits	16,666,665	8,333,335	-	-
Balance at the End of the Year	<b>25,000,000</b>	<b>8,333,335</b>	<b>-</b>	<b>-</b>
<b>(c) Exchange Reserve</b>				
Balance at the Beginning of the Year	14,427,822	81,001,865	-	-
Transfer from/(to) Accumulated Profits	(92,169,579)	(66,574,043)	-	-
Balance at the End of the Year	<b>(77,741,757)</b>	<b>14,427,822</b>	<b>-</b>	<b>-</b>
<b>Total Reserves</b>	<b>635,444,251</b>	<b>590,583,630</b>	<b>372,663,859</b>	<b>372,663,859</b>

The above revaluation surplus consists of net surplus resulting from the revaluation of Property, Plant and Equipment as described in Note 11 to these financial statements.

## 25 NON INTEREST BEARING LOANS & BORROWINGS

	2007	2007	2007	2006	2006	2006
	Amount Repayable Within 1 Year Rs.	Amount Repayable After 1 Year Rs.	Total Rs.	Amount Repayable Within 1 Year Rs.	Amount Repayable After 1 Year Rs.	Total Rs.
<b>25.1 Group</b>						
Rent Deposits/Advances Payable	-	21,034,768	21,034,768	2,327,220	10,054,111	12,381,331
Other Payable	1,207,000	-	1,207,000	1,207,000	1,258,743	2,465,743
	<b>1,207,000</b>	<b>21,034,768</b>	<b>22,241,768</b>	<b>3,534,220</b>	<b>11,312,854</b>	<b>14,847,074</b>
<b>25.2 Company</b>						
Loans from Related Parties (25.2.1) *	-	421,281,342	421,281,342	-	294,934,285	294,934,285
	<b>-</b>	<b>421,281,342</b>	<b>421,281,342</b>	<b>-</b>	<b>294,934,285</b>	<b>294,934,285</b>

## Notes to the Financial Statements

Year ended 31 March 2007

### 25.2.1 Loans from Related Parties

	Relationship	As at 01.04.2006 Rs.	Loans Obtained During the year Rs.	Repayment During the year Rs.	As at 31.03.2007 Rs.
Forbes Air Services (Pte) Ltd.	Subsidiary	32,172,645	63,874,000	(43,374,000)	52,672,645
Hemas Marketing (Pte) Ltd.	Subsidiary	59,770,682	247,704,209	(178,907,346)	128,567,545
Hemtours (Pte) Ltd.	Subsidiary	128,189,995	-	-	128,189,995
Hemas Manufacturing (Pte) Ltd.	Subsidiary	40,690,914	135,000,000	(85,000,000)	90,690,914
Hemas Development (Pte) Ltd.	Subsidiary	10,269,202	-	-	10,269,202
Hemas Air Services (Pte) Ltd.	Subsidiary	14,385,137	17,638,500	(22,090,000)	9,933,637
Hemas Corporate Services (Pte) Ltd.	Subsidiary	9,455,710	23,415,498	(32,871,208)	-
Hemas Travels (Pte) Ltd.	Subsidiary	-	957,404	-	957,404
		294,934,285	488,589,611	(362,242,554)	421,281,342

\* Terms of repayment are mutually agreed with relevant related parties.

No securities are kept in respect of these loans.

## 26 INTEREST BEARING LOANS & BORROWINGS

### 26.1 Group

	2007 Amount Repayable Within 1 Year Rs.	2007 Amount Repayable After 1 Year Rs.	2007 Total Rs.	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.
Finance Leases	2,672,832	4,338,723	7,011,555	1,282,073	3,225,492	4,507,565
Bank Loans - Rupee Loan (26.1.1)	223,758,103	153,064,845	376,822,948	122,399,232	228,909,137	351,308,369
- US\$ Syndicate Loan(26.1.2)	376,941,043	1,095,152,512	1,472,093,555	354,183,696	1,383,218,515	1,737,402,211
Debentures (26.1.3)	9,090,909	25,000,000	34,090,909	9,090,909	34,090,909	43,181,818
Bank Overdrafts	993,141,652	-	993,141,652	429,467,590	-	429,467,590
	1,605,604,539	1,277,556,080	2,883,160,619	916,423,500	1,649,444,053	2,565,867,553

### 26.1.1 Rupee Loan

	As at 01.04.2006 Rs.	Loans Obtained Rs.	Repayments Rs.	As at 31.03.2007 Rs.
Bank Loans	351,308,369	114,244,500	(88,729,921)	376,822,948
	351,308,369	114,244,500	(88,729,921)	376,822,948

# Notes to the Financial Statements

Year ended 31 March 2007

## 26.1.2 US\$ Syndicate Loan

	As at 01.04.2006 Rs.	Loans Obtained Rs.	Repayments Rs.	Exchange Loss Rs.	As at 31.03.2007 Rs.
Syndicate Loan	1,737,402,211	-	(364,861,697)	99,553,041	1,472,093,555

### Rate of Interest

- (a) In 2004 Heladhanavi Ltd. (Joint Venture) entered into an Interest Rate SWAP Agreement with Hatton National Bank, fixed interest rate 5.15% plus 3% per annum for US\$ 36.5 Mn. (Group Share - US\$ 18.25 Mn.)
- (b) Floating Interest Rate: Three months London Inter Bank Offer Rate (LIBOR) plus 3% per annum applicable for balance US\$ 2.5 Mn (Group Share - US\$ 1.25 Mn.)
- Interest payable quarterly during the grace period and thereafter monthly.

### Security

Immovable assets have been secured against US\$ 4 Mn (Group Share - US\$ 2 Mn) loan and; movable assets, assignment of book debts, all shares of the venture and project documents have been secured against balance US\$ 35 Mn (Group Share - US\$ 17.5 Mn) loan.

### Facility

The US\$ 39 Mn (Group Share - US\$ 19.5 Mn) syndicated loan facility was obtained from Hatton National Bank, Commercial Bank of Ceylon Ltd., Peoples' Bank., Bank of Ceylon., Seylan Bank Ltd., Sampath Bank Ltd., DFCC Bank to finance the project and disbursements were made when it was requested by the Venture to make progress payments on the project.

### Terms of Repayment

The Capital repayment of the loan commenced from June 2005 after a grace period of 18 months from the date of the first disbursement.

### Terms & Conditions of US\$ Syndicate Loan

#### Undertaking not to declare dividends

According to the Syndicated Facility Agreement (SFA), Venture has agreed and undertaken not to declare any dividend without the prior consent of the lead bank during the grace period and thereafter.

#### Heladhanavi has agreed and undertaken to maintain

1. Long term debt equity ratio below 2 : 1 from the second year of operation onwards
2. Debt Service Coverage Ratio be at least greater than one from the second year of operation
3. Liquidity at 2 : 1 from the second year of operation onwards.

No payments can be made to an amount aggregating to more than US \$ 100,000 (Group Share - US\$ 50,000) or its equivalent in any currency per quarter other than project related payments and payments of dividends with the prior consent of the lead bank.

## 26.1.3 Debentures

	As at 01.04.2006 Rs.	New Issues Rs.	Redemption Rs.	As at 31.03.2007 Rs.
15.75% Unsecured Subordinated Redeemable Fixed Rate Debenture	43,181,818	-	(9,090,909)	34,090,909

### Security

Heladhanavi Ltd. (Joint Venture) was not required by National Savings Bank to furnish any security for the Debentures issued by them.

### Terms of Redemption

Grace period for the repayment of the loan is 18 months from the date of disbursement and, equal capital repayments over 66 months thereafter.

### The Reason for the issue

These debentures were issued to finance the cost of the project and carry an interest of 15.75% per annum, payable half-yearly in arrears.

## Notes to the Financial Statements

Year ended 31 March 2007

### 26.2 Company

	2007 Amount Repayable Within 1 Year Rs.	2007 Amount Repayable After 1 Year Rs.	2007 Total Rs.	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.
Loans from Related Parties (26.2.1)	342,293,798		342,293,798	322,795,698	-	322,795,698
Bank Overdrafts	3,579,566		3,579,566	-	-	-
	345,873,364	-	345,873,364	322,795,698	-	322,795,698

### 26.2.1 Loans from Related Parties

	Relationship	As at 01.04.2006 Rs.	Loans Obtained During the year Rs.	Repayment During the year Rs.	As at 31.03.2007 Rs.
Hemas Marketing (Pte) Ltd.	Subsidiary	40,000,000	596,766,000	(636,766,000)	-
Spectrum Marketing (Pte) Ltd.	Subsidiary	49,900,000	91,800,000	(141,700,000)	-
Peace Haven Resorts (Pte) Ltd.	Subsidiary	218,895,698	-	-	218,895,298
Hemas Air Services (Pte) Ltd.	Subsidiary	14,000,000	42,000,000	-	56,000,000
Hemas Pharmaceuticals (Pte) Ltd.	Subsidiary	-	55,500,000	-	55,500,000
Hemas Aviation (Pte) Ltd.	Subsidiary	-	6,100,000	-	6,100,000
Hemas Developments (Pte) Ltd.	Subsidiary	-	74,398,500	(68,600,400)	5,798,500
		322,795,698	866,564,500	(847,066,400)	342,293,798

	Group		Company	
	2007 Rs.	2006 Rs. Restated	2007 Rs.	2006 Rs. Restated
<b>27 DEFERRED INCOME TAX</b>				
Balance as at Beginning of the Year	126,605,577	91,326,474	31,576,800	10,805,541
Provision/(Release) made during the Year				
- Directly to P&L	3,681,016	(8,900,839)	4,392,569	(1,034,241)
- Directly to Equity	40,746,224	44,179,942	-	-
- In Respect of Investment Property - P&L	-	-	15,912,868	11,196,371
- Equity	-	-	-	10,609,129
Balance as at the end of the Year	171,032,817	126,605,577	51,882,237	31,576,800

### 28 OTHER DEFERRED LIABILITIES

Retirement Benefit Obligation - Gratuity				
Balance as at Beginning of the Year	103,702,432	84,083,421	11,221,428	7,036,396
Charge for the Year	34,382,389	26,177,496	2,299,215	4,276,032
Payments during the Year	(17,253,528)	(6,558,485)	(2,139,051)	(91,000)
Balance as at the end of the Year	120,831,293	103,702,432	11,381,592	11,221,428



# Notes to the Financial Statements

Year ended 31 March 2007

## 33 ACQUISITION OF SUBSIDIARIES AND DISPOSAL OF ASSOCIATE DURING THE YEAR - Group

The acquisitions and disposals had the following effects on the groups Assets & Liabilities

2007  
Rs.

<b>(a) Mowbray Hotels Ltd and Giddawa Hydro Power (Pvt) Ltd</b>	
<b>Assets</b>	
Property, Plant and Equipment	131,014,790
Investments	1,139,434
Other Receivables	214,133
Cash & Cash Equivalents	2,300,706
	<b>134,669,063</b>
<b>Less:Liabilities</b>	
Creditors and Accruals	(44,832,964)
Net Assets Acquired	89,836,099
Minority Share	(10,139,893)
Carrying value of the investment	(27,431,826)
	<b>52,264,380</b>
Goodwill Acquired (negative Goodwill)	(19,012,486)
Cash & cash equivalents	(2,300,706)
Purchase Consideration	30,951,188
<b>(b) Serendib Hotel PLC</b>	<b>27,095,279</b>
Total Cash Consideration	58,046,467
Proceeds from disposal of Hela Clothing (Pte) Ltd	(31,494,700)
Net Cash Out flows	26,551,767

## 34. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no events subsequent to the balance sheet date, which would have any material effect on the Group except for the following.

### Serendib Hotels PLC

The Company entered into a strategic partnership during the year with Minor International PCL , Thailand. As part of this process the Company issued 19.9% of issued share capital to "Lodging Investment (Labuan) Ltd", a wholly owned subsidiary of Minor International PCL by way of a private placement. The proceeds of the above share issue amounting to Rs.137,359,803/- has been received by the Company on 26th April 2007.

### Hemtours (Pte) Limited

The contract with Trans Asia Hotels Ltd to operate their Travel Counter will not be renewed.

## 35 COMMITMENTS AND CONTINGENCIES

### 35.1 Capital Expenditure Commitments Hemas Manufacturing (Pte) Limited

The Company is relocating its factory to Dankotuwa under sec.17 of the BOI Act of 1978. The total cost of the project which is approved by the Director but not contracted for amounts to Rs.690Mn. Rs.37Mn has been paid as advances in relation to the relocation.

#### (a) Hemas Hospitals (Pte) Limited

As at balance sheet date, the Company had commitments of Rs.1,297Mn (\$13Mn) principally relating to construction of Hospital.

#### (b) Serendib Hotels PLC

Total capital expenditure for the refurbishment of the hotel, which is approved by the Board of Directors but not contracted for, amounts to approximately Rs.22.6 Mn.

#### (c) Giddawa Hydro Power (Pte) Limited

The total estimated capital expenditure cost of the Project will amount to Rs.288Mn of which Rs.51.794Mn has been incurred during the current financial year.

# Notes to the Financial Statements

Year ended 31 March 2007

## 35.2 Contingencies

### (a) Hemas Holdings PLC

The contingent liability as at 31st March 2007 on guarantees given by Hemas Holdings Ltd., to banks on behalf of subsidiaries and Associates relating to facilities obtained, are as follows:

	2007	2006
	Rs.	Rs.
Hemas Pharmaceuticals (Pte) Limited	88,750,000	88,750,000
Hemas Travels (Pte) Limited	14,000,000	29,000,000
Hemas Air Services (Pte) Limited	-	4,000,000
Hemas International Freight (Pte) Limited	9,000,000	21,000,000
Hemas Corporate Services (Pte) Limited	5,000,000	5,000,000
Hemas Healthcare (Pte) Limited	-	15,000,000
Heladhanavi Limited	100,000,000	100,000,000
Giddawa Hydro Power (Pte) Limited	132,000,000	-
Exchange & Finance Investment Limited	2,500,000	-
	<b>351,250,000</b>	<b>262,750,000</b>

### (b) Hemas Manufacturing (Pte) Limited

A civil case has been filed against the Company by Colgate Palmolive Company, seeking a declaration that the Company's Registered Trade Mark No. 74941 is null and void and of no force or effect in law from the date of registration of the said mark.

Based on the representations made by the Company Lawyers, the Supreme Court has delivered judgment in favour of the Company.

### (c) Hemas Travels (Pte) Limited

- (a) The Company has obtained Guarantees from Standard Chartered Bank and HNB favouring Airline Operators amounting to Rs. 164,300,000/-
- (b) The Company has obtained Guarantees from Standard Chartered Bank favouring "Gullivers Travels" and Saltours International, Mumbai amounting to GBP 10,000 and EURO 10,000 respectively.
- (c) The Company has obtained Guarantees from Standard Chartered Bank favouring Central Bank of Sri Lanka amounting to Rs. 2,500,000/-.

### (d) Hemas Air Services (Pte) Limited

- (a) The Company has obtained Guarantees from HNB and Standard Chartered Bank favouring Air Port & Aviation Services (Pte) Ltd and Malaysian Airline amounting to Rs. 4,146,780/- and USD 200,000 respectively.
- (b) The Company has obtained Guarantees from HNB & Standard Chartered Bank favouring "Drukair", amounting to USD 20,000 and "Island Aviation" amounting to Rs. 1,000,000/-.
- (c) The Company has obtained Guarantees from Standard Chartered Bank favouring "Discover Momentum", amounting to USD 50,000.

### (e) Hemas International Freight (Pte) Ltd

The Company have obtained Guarantee from Nations Trust Bank favouring Sri Lankan Air Lines amounting to Rs.5Mn.

The company have obtained a Guarantee from Standard Chartered Bank favouring Green Lanka Shipping Limited amounting to Rs. 4Mn.

The company have obtained a Guarantee from Nations Trust Bank favouring James Finley & Company (Colombo) Limited amounting to Rs. 2.5Mn.



# Notes to the Financial Statements

Year ended 31 March 2007

**(f) Exchange & Finance Investments Limited**

Mr.K.T.D.Samarasinghe has filed a case against the company claiming damages for Rs.5Mn and the trial is still being continued. However no provision has been made in the accounts in this regard.

The Company has obtained guarantees from Nation Trust Bank favouring Kenya Airways and Alitalia Airlines amounting to Rs.4Mn and Rs.5Mn respectively.

**(g) Hemas Aviation (Pte) Limited**

(a) The company has obtained Guarantee from Standard Chartered Bank favouring Druck Air Corporation Ltd amounting to US\$200,000.

(a) The company has obtained Guarantee from Hatton National Bank favouring Island Aviation Services Ltd amounting to Rs1Mn.

**(h) Hemtours (Pte) Limited**

The company have filed cases against Mr. Irosh Fernando and Varma & UVI Holidays for the purpose of recovering the receivables due from them.

## Lease Commitments

### Hemas Hospitals (Pte) Limited

#### Operating Lease Commitments - Company as Lessee

The Company has entered into an operating lease agreement to lease a land from Nihila Garments (Pvt) Ltd . This lease has a life of 30 years with no renewal option included in the contract. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under operating lease as at 31st March as follows

2007

Rs.

Within 01 year	15,000,000
After 01 year but not more than 05 years	75,000,000
More than 05 years	579,744,000
	669,744,000

## 35.3 Commitments and Contingencies of the Jointly Controlled Entity

**Heladhanavi Limited** - The Group has 50% share of following;

### Operations and Maintenance Agreement with Lakdhanavi Ltd

According to this agreement, the fixed fee payable after the final completion date is US\$ 625,000 per annum paid in equal monthly installments for the period of 10 years.

Heladhanavi Limited is liable to pay Lakdhanavi Limited an additional sum of US \$ 2,000,000 for each remaining year of the term or pro rata for part of term upon the early termination of this agreement.

A variable fee, depends on the Net Energy output generated

### Fuel Transport Agreement with LTL Projects (Pvt) Ltd

Heladhanavi Limited has entered into a contract during the period with LTL Projects (Pvt) Ltd for the transportation of fuel. According to the arrangement the venture need to pay a fixed charge of US \$ 10,500 per month from the date of commencement of power generation in the plant.

# Notes to the Financial Statements

Year ended 31 March 2007

## **Fuel Supply Agreement with Ceylon Petroleum Corporation**

If the venture is unable to accept fuel under supply schedule (subject to change) and /or comply with its obligations under this agreement and costs, expenses, damages & losses incurred as a direct and exclusive result of such failure or inability should be paid by the venture within 30 days. However venture's liability under this agreement is limited to a maximum of US \$ 500,000 per annum.

According to the clause 3.5 (C) of fuel supply agreement , venture has establish a letter of Credit at Hatton National Bank in favour of Ceylon Petroleum Corporation to the value of Rs. 280 Mn.

## **Power Purchase Agreement with Ceylon Electricity Board**

If the venture fails to supply Minimum Guaranteed Energy Amount ( MGEA ), which is 698,417,280 kwh per year, the venture would be liable for liquidated damages.

### **Shortfall**

### **Amount of liquidated damages for each kwh of shortfall**

Exceeding 10% of MGEA upto 25% of MGEA

15% of capacity charges

Exceeding 25% of MGEA

25% of capacity charges

# Notes to the Financial Statements

Year ended 31 March 2007

## 36 ASSETS PLEDGED

Name of The Company	Nature of Assets	Nature of Liability	Carrying Amount of the Assets Pledged		Included Under
			2007 Rs.	2006 Rs.	
Hemas Manufacturing (Pte) Ltd.	Inventories. Trade Receivables	Concurrent Mortgage to the extend of bank facility obtained from HNB & HSBC	288,100,000	193,100,000	Inventories and Trade Debtors
Heladhanavi Ltd (The Group has 50% share of the Assets Pledged)	Immovable Assets. (Syndicated Loan Facility)	US\$ 4,000,000	10,884,270	10,884,270	Property ,Plant & Equipment
	Mortgage of all movable assets and assignment of book debts of the company. Share certificates of the Company. Assignment of project documents. Immovable Assets.	US\$ 35,000,000 (Syndicated loan Facility)	6,336,435,807	6,357,757,301	Share Capital.
			1,200,000,070	1,200,000,070	
	Mortgage of all movable assets and assignment of book debts of the company.	Rs. 30,769,230 (Rupee Loan Facility)	10,884,270	10,884,270	Property ,Plant & Equipment.
	Share certificates of the company.	Rs. 269,230,769 (Rupee Loan Facility)	6,336,435,807	6,357,757,301	Property ,Plant & Equipment.
Assignment of project documents.	Rs. 400,000,000 (Working Capital Loan)	1,200,000,070	1,200,000,070	Share Capital	
Serendib Hotels PLC	Land and Buildings	Primary Mortgage upto the value of Rs 48Mn to Seylan Bank	211,631,257	219,405,933	Property, Plant & Equipment
		Secondary Mortgage upto the value of Rs 20Mn to Seylan Bank			
Stafford Hotels PLC	Freehold Land	Primary Mortgage upto the value of Rs. 55Mn to DFCC bank.	40,434,600	40,180,000	Property, Plant & Equipment
	Plant, Machinery & Equipment Receivables	Primary mortgage over existing movable items up to the value of Rs. 5Mn to DFCC	30,145,431	33,534,006	Property, Plant & Equipment Debtors
			40,048,888	38,629,191	
Plant and Equipment	Secondary Mortgage up to value of Rs.3.785Mn to DFCC	40,434,600	40,180,000	Property, Plant & Equipment	
Miami Beach Hotels Ltd.	Freehold Land & Buildings	Primary Mortgage upto the value of Rs 65Mn to Seylan Bank	157,530,624	156,704,621	Property, Plant & Equipment
	Freehold Land	Secondary Mortgage up to the value of Rs.15Mn to DFCC	50,944,300	50,944,300	Property, Plant & Equipment
	Plant, Machinery & Equipment Debtors	Primary mortgage over existing movable items up to the value of Rs. 5Mn to DFCC	18,906,895 25,291,272	21,896,329 22,266,353	Property, Plant & Equipment Debtors
Hemtours (Pte) Ltd	Motor vehicles	Primary Mortgage up to the value of Rs.18Mn to NDB bank	9,078,913	12,106,428.00	Property, Plant & Equipment

# Notes to the Financial Statements

Year ended 31 March 2007

## 37 DIRECTORS INTEREST IN CONTRACTS AND/OR PROPOSED CONTRACTS WITH THE COMPANY

**37.1** Messers: Husein Esufally, Murtaza Esufally, Abbas Esufally, Imtiaz Esufally, Lalith de Mel, Divayaroop Bhatnagar, Simon Scarff, Maitthri Wickremesinghe and Ms. Serena Fonseka (resigned w.e.f 14/02/2007) were Directors of the Company for the year ended 31st March 2007.

All interests in contracts with the Company in respect to ordinary course of business have been declared at Board Meetings by the Directors concerned. The Directors have no direct or indirect personal interest in any other contracts and/or proposed contracts with the Company.

## 37.2 Details of Transactions carried out with director related entities within Hemas Group which have been eliminated in consolidation during the year.

Related Party	Relationship	Directors	Nature of Transaction	Value 2007 Rs.	Value 2006 Rs
<b>Hemas Marketing (Pte) Limited</b> Hemas Manufacturing (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally Mr.D.Bhatnagar	Purchases	1,868,603,098	1,548,931,741
Hemas Foods(Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Purchases	82,614,000	117,699,583
Vishwa BPO (Pte) Ltd	Group Company	Mr.H.Esufally Ms.Kasturi Wilson	Shared Services	3,609,984	-
<b>Hemas International Freight (Pvt) Ltd</b> Hemas Air Services (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally Mr.E.Fernando	Air Cargo Services	7,495,493	11,728,349
Forbes Air Services (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Purchase of air tickets	8,899,809	12,296,322
Hemas Travels (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Vehicle Rent	2,777,022	3,679,205
Hemas Holdings Ltd	Parent Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Management Fees	15,244,668	10,187,801
<b>Hemas Pharmaceuticals (Pte) Ltd</b> Vishwa BPO (Pte) Ltd	Group Company	Mr.H.Esufally Ms.Kasturi Wilson	Shared Services	3,789,666	-
Hemas Healthcare	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Transfer of Funds	33,531,623	-
<b>Hemas Manufacturing (Pte) Ltd</b> Hemas Travels (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Foreign Travelling	6,684,041	3,735,177
Hemas International Freight (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Freight forwarding expenses	6,009,173	4,565,598

## Notes to the Financial Statements

Year ended 31 March 2007

Related Party	Relationship	Directors	Nature of Transaction	Value 2007 Rs.	Value 2006 Rs
<b>Hemas Travels (Pte) Ltd</b>					
<b>Value stated below are sales throughput, however revenue is recognised as net commission on sales.</b>					
Hemas International Freight (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Air Line ticket Sales	14,054,819	3,088,580
Hemas Marketing (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Air Line ticket Sales	5,313,666	2,280,152
Hemas Developments (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Rental expenses	3,784,800	3,643,200
Hemtours (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Air Line ticket Sales	21,155,974	16,717,710
Hemas Holdings PLC	Parent Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Air Line ticket Sales	9,617,263	2,717,791
Exchange and Finance Investment (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Airline ticket Purchases	8,254,724	10,603,400
Hemas Aviation (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Airline ticket Purchases	2,026,560	3,414,800
Forbes Air Services (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Airline ticket Purchases	258,855,492	266,379,273
Hemas Pharmaceuticals (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Air Line ticket Sales	19,442,411	30,117,519
Vishwa BPO (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Shared Services	2,617,171	-
<b>Hemas Holdings PLC</b>					
Hemas Healthcare (Pte) Ltd		Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Interest income	5,496,177	7,252,594
Hemas Marketing (Pte) Ltd		Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Consultancy Fees IT Charges Interest Income Management Fees	8,660,000 9,870,186 4,429,526 -	3,780,662 - 6,133,732 1,800,000

## Notes to the Financial Statements

Year ended 31 March 2007

Related Party	Relationship	Directors	Nature of Transaction	Value 2007 Rs.	Value 2006 Rs.
Hemas Manufacturing (Pte) Ltd		Mr.H.Esufally	Rental Income	4,608,052	3,686,443
		Mr.A.Esufally	Consultancy	8,660,000	8,680,661
		Mr.I.Esufally	IT Charges	12,354,067	-
		Mr.M.Esufally	Management Fees	-	1,800,000
Hela Clothing (Pte) Ltd		Mr.M.Esufally	Rental Income	10,686,163	15,686,163
Hemas Air Services (Pte) Ltd		Mr.H.Esufally	Consultancy Fees Interest	2,650,000	13,843,786
		Mr.A.Esufally			
		Mr.I.Esufally			
		Mr.M.Esufally			
Spectrum Marketing (Pte) Ltd		Mr.H.Esufally	Inter Company Interest Expenses	2,564,754	4,128,290
		Mr.A.Esufally			
		Mr.I.Esufally			
		Mr.M.Esufally			
Hemas Pharmaceuticals (Pte) Ltd		Mr.H.Esufally	Consultancy Fees	7,715,000	3,270,165
		Mr.A.Esufally	IT Charges	15,307,877	-
		Mr.I.Esufally	Inter Company Interest Income	10,164,912	6,280,848
		Mr.M.Esufally	Inter Company Interest Expenses	2,841,196	-
Hemtours (Pte) Ltd		Mr.H.Esufally	Consultancy Fees	1,960,000	1,000,000
		Mr.A.Esufally	IT Charges	5,908,135	-
		Mr.I.Esufally			
		Mr.M.Esufally			
Hemas Travels (Pte) Ltd		Mr.H.Esufally	Consultancy Fees IT Charges Inter Company Interest Expenses	2,145,000	2,720,731
		Mr.A.Esufally			
		Mr.I.Esufally			
		Mr.M.Esufally			
Forbes Air Services (Pte) Ltd		Mr.H.Esufally	Consultancy Fees	3,390,000	4,671,514
		Mr.A.Esufally			
		Mr.I.Esufally			
		Mr.M.Esufally			
Hemas Developments (Pte) Ltd		Mr.H.Esufally	Consultancy Fees	2,870,000	-
		Mr.A.Esufally	Interest Income	1,886,134	-
		Mr.I.Esufally	Interest Expence	-	4,346,971
		Mr.M.Esufally			
Vishwa BPO (Pte) Ltd		Mr.H.Esufally	Consultancy Fees & IT Charges	2,279,412	-
		Mr.A.Esufally			
		Mr.I.Esufally			
		Mr.M.Esufally			
Hemas Power (Pte) Ltd		Mr.H.Esufally	Interest Expenses	8,224,694	-
		Mr.A.Esufally			
		Mr.I.Esufally			
		Mr.M.Esufally			
Peace Haven Resorts Limited		Mr.H.Esufally	Interest Expenses	19,591,528	10,070,062
		Mr.A.Esufally			
		Mr.I.Esufally			
		Mr.M.Esufally			

## Notes to the Financial Statements

Year ended 31 March 2007

Related Party	Relationship	Directors	Nature of Transaction	Value 2007 Rs.	Value 2006 Rs
<b>Hemas Corporate Services (Pte) Ltd</b>					
Hemas Holdings PLC	Parent Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Centralised Corporate Services	4,191,466	3,953,517
Hemas Marketing (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Centralised Corporate Services	6,965,774	7,551,055
Hemas Travels (Pte ) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Centralised Corporate Services	4,685,518	2,546,062
Hemas Air Services (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Centralised Corporate Services	2,576,017	1,656,219
Hemas Int.Freight (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally	Centralised Corporate Services	3,008,962	2,030,023
Hemtours (Pte) Ltd	Group Company	Mr.I.Esufally	Centralised Corporate Services	2,039,167	3,345,405
Hemas Pharmaceuticals (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Centralised Corporate Services	7,699,119	9,071,049
Forbes Air Services (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Centralised Corporate Services	2,216,345	444,521
<b>Hemtours (Pte) Ltd</b>					
Vishwa BPO (Pte) Ltd	Group Company	Mr.H.Esufally Ms.Kasturi Wilson	Shared Services	3,308,040	-
Hemas Development (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Rental Fees	7,329,456	7,541,904
<b>Hemas Air Services (Pte) Ltd</b>					
<b>Value stated below are sales throughput, however revenue is recognised as net commission on sales.</b>					
Hemas Travels (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Air ticket sales	28,015,625	94,287,578
<b>Forbes Air Services</b>					
Hemas Development (Pte) Ltd	Group Company	Mr.H.Esufally Mr.A.Esufally Mr.I.Esufally Mr.M.Esufally	Rental fees	11,145,096	10,793,040

# Notes to the Financial Statements

Year ended 31 March 2007

	2007	2006
	Rs.	Rs.
<b>38 RELATED PARTY TRANSACTIONS</b>		
<b>38.1 Compensation to Hemas Holdings PLC Board of Directors</b>		
Directors' Fees	3,160,000	3,050,000
Emoluments	26,010,271	20,940,845
Non cash benefits	2,040,310	1,903,350
<b>38.2 Transactions, arrangements and agreements involving Hemas Holdings PLC Board of Directors</b>		
Purchase of air tickets	7,363,220	8,474,201
<b>39 SEGMENTAL INFORMATION</b>		
<b>Information based on the primary segments (Business Segment)</b>		
<b>Segment Turnover</b>		
FMCG	3,845,485,636	3,192,469,554
Healthcare	2,854,606,642	2,460,770,804
Leisure	863,642,303	792,835,940
Transportation	507,250,402	417,921,731
Power	3,643,389,658	2,893,892,243
Others	261,129,248	176,280,325
	11,975,503,889	9,934,170,597
Less: Inter Sector Sales	(197,367,694)	(154,832,471)
	11,778,136,195	9,779,338,126
<b>Segment Profit</b>		
FMCG	399,382,161	408,870,325
Healthcare	140,899,711	136,746,325
Leisure	42,663,784	28,588,709
Transportation	102,233,666	131,573,307
Power	303,019,766	262,732,878
Others	31,338,086	(2,975,323)
	1,019,537,174	965,536,221



# Notes to the Financial Statements

Year ended 31 March 2007

Segment Assets & Liabilities	Total Assets		Total Liabilities	
	2007	2006	2007	2006
	Rs.	Rs.	Rs.	Rs.
FMCG	2,962,886,510	2,219,193,823	1,045,706,382	629,654,040
Healthcare	1,687,906,332	1,231,411,226	987,467,093	826,507,233
Leisure	2,279,763,695	2,100,887,176	623,090,844	614,340,468
Transportation	1,631,063,535	1,543,254,789	1,188,666,396	1,169,774,273
Power	3,769,768,192	3,496,297,969	2,578,451,664	2,521,106,738
Others	6,847,188,128	6,543,498,945	961,977,694	966,551,164
	19,178,576,392	17,134,543,928	7,385,360,073	6,727,933,916
Inter Sector Adjustment	(7,782,720,876)	(7,109,782,409)	(1,852,170,838)	(1,519,226,855)
	11,395,855,516	10,024,761,519	5,533,189,235	5,208,707,061

## 40 PROPORTIONATE INTEREST IN JOINT VENTURES

The Group's proportionate 50% share of Heladhanavi Ltd and 49% share of Hellman Worldwide Logistics (Pvt) Ltd. Income and Expenses, Assets and Liabilities have been included in the Group Income statement and Balance Sheet respectively.

The aggregate amounts so included are as follows;

	Group	
	2007	2006
	Rs.	Rs.
a) Current Assets	1,296,096,540	859,455,402
b) Non Current Assets	2,445,268,880	2,636,842,560
c) Current Liabilities	1,345,769,746	896,083,731
d) Non Current Liabilities	1,188,634,802	1,533,356,342
e) Income	3,702,827,998	2,943,677,033
f) Net Profit	310,095,691	262,732,878

# Notes to the Financial Statements

Year ended 31 March 2007

## 41 GROUP COMPANIES

<b>Subsidiaries</b>	Proportion of Ownership Interest as at 31.03.2007	Proportion of Voting Power as at 31.03.2007	Proportion of Ownership Interest as at 31.03.2006	Proportion of Voting Power as at 31.03.2006	Principal Activities
Hemas Travels (Pte) Ltd.	100%	100%	100%	100%	Travel Agent
Hemas Manufacturing (Pte) Ltd.	100%	100%	100%	100%	Manufacture of FMCG Products
Hemas Air Services (Pte) Ltd.	100%	100%	100%	100%	GSA Malaysian Airline
Forbes Air Services (Pte) Ltd.	100%	100%	100%	100%	GSA Emirates Airline
Hemas Aviation (Pte) Ltd.	100%	100%	100%	100%	Airline Representation
Go Asia Air Lines (Pte) Ltd.	100%	100%	100%	100%	Airline Representation
Exchange & Finance Investment (Pte) Ltd.	100%	100%	100%	100%	Airline Representation
Discover the World Marketing (Pte) Ltd.	100%	100%	100%	100%	Airline Representation
Hemas Healthcare (Pte) Ltd.	100%	100%	100%	100%	Distribution of Healthcare Products
Hemas Foods (Pte) Ltd.	100%	100%	100%	100%	Import and sale of Food Products
Hemas Corporate Services (Pte) Ltd.	100%	100%	100%	100%	Corporate Secretaries
Leisure Asia Investments Ltd	100%	100%	100%	100%	Investment Holding Company
Serendib Hotels PLC (Group)	63%	61%	54%	46%	Leisure Investments
Hemas Power (Pte) Ltd.	100%	100%	100%	100%	Venture Capital Company
Hemtours (Pte) Ltd.	100%	100%	100%	100%	Destination Management Services
Hemas Developments (Pte) Ltd.	100%	100%	100%	100%	Property Development
Conventions Asia (Pte) Ltd.	100%	100%	100%	100%	Event Management
Peace Haven Resorts Ltd.	95%	95%	95%	95%	Hotel Property
Hemas Marketing (Pte) Ltd.	100%	100%	100%	100%	Trading & Distribution of FMCG Products
Spectrum Marketing (Pte) Ltd	100%	100%	100%	100%	Dormant
Hemas Pharmaceuticals (Pte) Ltd.	100%	100%	100%	100%	Distribution of Pharmaceutical Products
Hemas International Freight (Pte) Ltd.	100%	100%	100%	100%	Freight Forwarders
ACX International (Pvt) Ltd.	100%	100%	100%	100%	Courier Services
Hemas Clinical Solutions (Pte) Ltd.	100%	100%	100%	100%	Support Services of Clinical Trials
Vishwa BPO (Pte) Ltd	100%	100%	-	-	Financial & Accounting BPO
Hemas Hospitals (Pte) Ltd	70%	70%	-	-	Hospital Services (under constructions)
Giddawa Hydro Power (Pvt) Ltd.	96%	96%	-	-	Mini Hydro Power Plant (under constructions)
Mowbray Hotels Ltd.	89%	89%	-	-	Hotel Property
<b>Associate Companies</b>					
Hela Clothing (Pte) Ltd.	-	-	30%	30%	Garment Manufacturing and Exports
Mowbray Hotels Ltd.	-	-	39.60%	39.60%	Hotel Property
E-Channelling Ltd.	24.6%	24.6%	24.6%	24.6%	Electronic Channelling of Health Services
<b>Jointly Controlled Entity</b>					
Heladhanavi Ltd.	50%	50%	50%	50%	Thermal Power Plant
Hellman Worldwide Logistics (Pvt) Ltd	49%	49%	-	-	Freight Forwarders

# Five year Summary

Year Ended 31st March	2007	2006 Restated	2005 Restated	2004 Restated	2003 Restated
Rs'000					
<b>Operating Results</b>					
Group Revenue	11,778,136	9,779,338	9,275,784	6,947,710	5,706,161
Profit Before Taxation	1,407,184	1,247,374	1,057,678	867,183	589,030
Taxation	387,648	281,838	225,143	180,067	133,243
Profit After Taxation	1,019,537	965,536	832,535	687,116	455,786
Profit Attributable to Hemas Group	1,005,727	958,599	836,973	645,514	434,199
<b>Equity &amp; Liabilities</b>					
Share Capital	1,088,081	1,089,679	891,296	880,000	400,000
Reserves	951,377	778,100	1,005,281	347,986	186,666
Accumulated Profits	3,234,682	2,430,310	1,745,396	1,655,430	1,215,519
Minority Interest	588,527	496,967	681,897	546,380	506,803
Non-Current Liabilities	1,597,455	1,877,932	2,182,320	1,959,218	147,115
Current Liabilities	3,935,734	3,286,596	3,145,779	2,639,974	1,708,812
	11,395,856	10,024,762	9,651,969	8,028,988	4,164,915
<b>Assets</b>					
Property, Plant & Equipment	5,739,674	5,310,437	5,333,306	4,446,460	1,786,610
Intangible Assets	155,563	107,268	40,336	8,013	2,379
Investments (Associates & Others)	66,771	138,082	233,259	195,745	193,734
Other Receivables	-	-	-	1,672	567
Current Assets	5,433,848	4,468,975	4,045,068	3,377,097	2,181,626
	11,395,856	10,024,762	9,651,969	8,028,988	4,164,915
<b>Key Indicators</b>					
Earnings Per Share (Rs.)	9.90	9.52	8.43	6.98	4.96
Effective Rate of Dividend (%)	25	25.0	30.0	25.0	33.3
Dividend Cover (No. of Shares)	4.0	4.0	3.5	4.4	4.3
Interest Cover (No. of Times)	6.1	5.4	7.8	18.5	14.6
Net Asset Per Share (Rs.)	52.1	43.3	46.0	37.0	17.3
Cash from Operating Activities (Rs. '000)	176,992	1,035,785	1,182,366	574,317	357,025
Current Ratio (No. of Times)	1.4	1.4	1.3	1.3	1.3
Debt/Equity (%)	56.9	62.9	80.3	88.9	22.9
ROE (%)	21.1	24.4	26.3	28.2	26.6

# Shareholder Information

Shareholdings	number of shareholders	RESIDENT		Number of Shareholders	NON RESIDENT		Number of Shareholders	TOTAL	
		No of Shares	Percentage (%)		No of Shares	Percentage (%)		No of Shares	Percentage (%)
1 to 1000 Shares	3,319	657,483	0.65	23	5,990	0.01	3,342	663,473	0.66
1001 to 5,000 Shares	318	682,026	0.67	12	31,450	0.03	330	713,476	0.7
5,001 to 10,000 Shares	49	346,842	0.34	2	13,625	0.01	51	360,467	0.35
10,001 to 50,000 Shares	70	1,530,561	1.51	6	160,800	0.16	76	1,691,361	1.67
50,001 to 100,000 Shares	15	1,066,812	1.05	1	63,950	0.06	16	1,130,762	1.11
100,001 to 500,000 Shares	12	2,805,930	2.77	0	0	0	12	2,805,930	2.77
500,001 to 1000,000 Shares	1	922,750	0.91	0	0	0	1	922,750	0.91
Over 1,000,000 Shares	12	82,011,665	80.96	3	11,008,240	10.87	15	93,019,905	91.83
	3,796	90,024,069	88.86	47	11,284,055	11.14	3,843	101,308,124	100

## Computation of % of Public Shareholding

	31st March 2007 No. of Shares	31st March 2006 No. of Shares
Over 10% holding		
A Z Holdings (Pvt) Ltd	18,152,575	18,152,575
Saraz Investments (Pvt) Ltd	17,279,207	17,279,207
Blueberry Investments (Pvt) Ltd	17,156,250	17,156,250
Amagroup (Pvt) Ltd	17,156,133	17,156,133
<b>Directors shareholding</b>		
Mr. A N Esufally	1,145,500	1,131,125
Mr. H N Esufally	1,206,125	1,167,375
Mr. I A H Esufally	1,226,500	1,226,500
Mr. M A H Esufally	1,131,000	1,131,000
Mr. L De Mel	17,500	17,500
Mr. S J Scarff		
Mr. D Bhatnagar	15,550	10,300
Mr. M E Wickramasinghe	2,250	2,250
	74,488,590	74,430,215
Issued Share Capital as at 31st March 2007	101,308,124	99,801,249
Less Over 10% & Directors Shareholding	74,488,590	74,430,215
Public Holding	26,819,534	25,371,034
Public Holding as a % of Issued Share Capital	26.47%	25.42%

## SHARE TRADING

	2007/06		2005/06	
Market Price				
Highest	127.50	(02.02.07)	145.00	(25.05.05)
Lowest	99.00	(17.08.06)	91.00	(18.01.06)
As at year ended	107.00	(31.03.07)	110.75	(31.03.06)
No. of Trades	2,148		3,941	
No. of Shares Traded	6,798,100		17,085,400	
Value of the Shares Traded - (Rs.)	733,147,925		2,124,548,825	
Market Capitalisation (Rs.)	11 Billion	(31.03.07)	11 Billion	(31.03.06)

## Shareholder Information

### List of 20 Major Shareholders

#### MAJOR SHAREHOLDING

the twenty major shareholders as at 31st March 2007 with comparative figures for 2006.

	2007		2006	
	No of Shares	%	No of Shares	%
1. A Z Holdings (Private) Limited	18,152,575	17.92	18,152,575	18.20
2. Saraz Investments (Private) Limited	17,279,207	17.06	17,279,207	17.32
3. Blueberry Investments (Private) Limited	17,156,250	16.93	17,156,250	17.20
4. Amagroup (Private) Limited	17,156,133	16.93	17,156,133	17.20
5. HSBC INTL NOM LTD - SNFE - Arisaig India Fund Limited	8,042,050	7.94	7,535,750	7.56
6. Employees Provident Fund	3,518,375	3.47	3,518,375	3.53
7. Goldman Sachs International S/A Tree Line Asia Master Fund	1,961,190	1.94	-	-
8. Sri Lanka Insurance Corporation Ltd - Life Fund	1,749,100	1.73	1,249,100	1.25
9. Mr. I.A.H. Esufally	1,226,500	1.21	1,226,500	1.23
10. Mr. H.N. Esufally	1,206,125	1.19	1,167,375	1.17
11. National Savings Bank	1,200,000	1.18	1,200,000	1.20
12. Mr. A.N. Esufally	1,145,500	1.13	1,131,125	1.13
13. Mr. M.A.H. Esufally	1,131,000	1.12	1,131,000	1.13
14. Akbar Brothers Limited	1,090,900	1.08	478,200	0.48
15. HSBC Intl Nominees Ltd-Hsbc Bank PLC-CMG First State Global UMBR	1,005,000	0.99	1,005,000	1.01
16. Jacey Trust Services (Private)Limited	922,750	0.91	-	-
17. Cocoshell Activated Carbon Company Limited	408,575	0.40	360,975	0.36
18. The Ceylon Guardian Investment Trust Limited	399,400	0.39	-	-
19. M.J.F. Exports Limited.	341,000	0.34	341,000	0.34
20. Employees Trust Fund Board	334,400	0.33	-	-
	95,426,030	94.19	94,591,340	94.82
Shares held by the balance shareholdings	4,375,219	5.81	5,209,909	5.18
Total Issued Shares	99,801,249	100.00	99,801,249	100.00
	As at 31.03.07		As at 31.03.06	
PUBLIC HOLDING	26.47%		25.42%	

# Glossary

## **CAPITAL EMPLOYED**

Total shareholders' funds plus debt and minority interest.

## **CAPITAL RESERVES**

Reserves identified for specific purposes and considered not available for distribution.

## **CURRENT RATIO**

Current assets divided by current liabilities.

## **CONTINGENT LIABILITIES**

Conditions or situations at the Balance Sheet date, the financial effect of which are to be determined by future events which may or may not occur.

## **DEBT**

Interest bearing long term loans plus short term loans and overdrafts.

## **DEBT EQUITY RATIO**

Total interest bearing borrowings divided by the total of shareholders' funds.

## **DEFERRED INCOME TAX**

The net tax effect on items which have been included in the income statement, which would only qualify for inclusion on a tax return at a future date.

## **DIVIDEND COVER**

Net profit attributable to the ordinary shareholders divided by the total dividend paid and proposed.

## **ESOP (Employee Share Option Plan)**

The right but not the obligation to purchase an accrued number of shares at a fixed price within a pre-determined time period.

## **EQUITY**

Total shareholders' funds.

## **EARNINGS PER SHARE**

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

## **EBIT**

Earnings before interest and tax.

## **EFFECTIVE RATE OF TAXATION**

Income tax, including deferred income tax over profit before tax.

## **INTEREST COVER**

Operating profit before interest and tax divided by the total finance cost.

## **MARKET CAPITALISATION**

The number of ordinary shares in issue multiplied by the market price per share as at the reported date.

## **MINORITY INTEREST**

Part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through Subsidiaries, by the Parent.

## **NET ASSETS PER SHARE**

Shareholders funds divided by the number of ordinary shares in issue as at the end of the year.

## **PRICE EARNINGS RATIO**

Market price per share divided by the earnings per share.

## **RETURN ON EQUITY**

Profit after tax, minority interest and extra ordinary items divided by average shareholders' funds at the beginning and end of the year.

## **REVENUE RESERVES**

Reserves set aside for future distributions and Investments.

## **SEGMENT**

Constituent business units grouped in terms of similarity of operations and strategy.

## **SHAREHOLDERS' FUNDS**

Total of share capital, capital reserves and revenue reserves less preliminary and deferred Expenses.

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Fourth Annual General Meeting of Hemas Holdings PLC will be held at the Auditorium of the Ceylon Chamber of Commerce, No. 50, Nawam Mawatha, Colombo 2 on Thursday the 28th day of June 2007 at 3.30 p.m for the following purpose:-

## AGENDA

1. To receive and consider the Statements of Accounts of the Company for the year ended 31st March 2007, together with the Reports of the Directors and Auditors thereon.
2. To re-elect as Director, Mr. Maithri Wickremesinghe retiring in terms of the Articles of Association of the Company
3. To re-elect as Director, Mr. Simon J. Scarff retiring in terms of the Articles of Association of the Company
4. To pass the ordinary resolution set out below to re-elect as a director Mr. J.C.L De Mel who has reached the age of 70 years on 6th May 2007 and vacates office as a director of the Company in terms of Section 210 (2) (a) of the Companies' Act No. 7 of 2007.

"RESOLVED that Mr. J.C.L. De Mel who has reached the age of 70 years on 6th May 2007 be and is hereby re-elected a Director of the Company and it is hereby declared as provided for in Section 211 (1) of the Companies' Act No. 07 of 2007 that the age limit of 70 years referred to in Section 210 of the said Companies' Act shall not apply to Mr. J.C.L.De Mel."

5. To appoint Auditors for the ensuing year and to authorize the Directors to determine their remuneration.
6. To authorize the Directors to determine and make donations to charity.
7. To consider any other business of which due notice has been given.

By Order of the Board of  
**HEMAS HOLDINGS PLC**

HEMAS CORPORATE SERVICES (PRIVATE) LIMITED  
*Secretaries*

1st June 2007

### *Note:*

A member entitled to attend and vote is entitled to appoint a Proxy to attend and vote in his/her place..

A Proxy need not be a Member of the Company.

A Form of Proxy accompanies this Notice.

