



Healthcare



Management Discussion and Analysis

Healthcare

The Healthcare Sector comprises Pharmaceutical, Diagnostic and Surgical product distribution and the provision of Hospital Services. The sector posted a turnover of Rs. 3.1 Bn for the year an increase of 9.8% with a profit after tax of Rs. 184.5 Mn, an increase of 30.9% compared to the previous year. The major focus in the sector this year was the ongoing development of the 100 bed hospital in Wattala and the acquisition and development of a 50 bed hospital in Galle.

The pharmaceutical industry recorded a value growth of 2.8% in 2007 compared to a growth of 8.4% the previous year (IMS) which we attribute to a shift in consumer demand to generic products as result of high inflation. Our core pharmaceutical business did well to grow faster than the market closing the year with an exit market share of 15.2% up from 14.3% the previous year (Source : IMS). The increased focus on efficient working capital management resulted in a commendable improvement in cash generated from operations during the year.

A Business Process Re-engineering (BPR) initiative was undertaken during the year to re-orient the business to a process driven system rather than a functional one, with the customer as the focal point. This is expected to positively impact efficiencies and productivity and we expect to see the benefits of this in our operations in time to come.

Strong sales growth was witnessed in generic products manufactured by our principals Getz Pharma, Kalbe, Ranbaxy, Torrent & US Vitamins. The diverse product portfolio of our principals combined with well designed product launches and promotions contributed to the growth momentum seen this year. The business also attracted new Principals in the latter part of the year namely Reckitt Benckiser, Boehringer Ingelheim, and Bayer Schering.

The Wattala Hospital is scheduled to open in August 2008 as planned. Private equity was raised to finance the hospital with the Hemas group retaining majority shares in Hemas Hospitals (Pvt) Ltd which will own and operate the hospital. A number of independent Directors have been invited to the Board of this company to ensure good medical practice and governance.

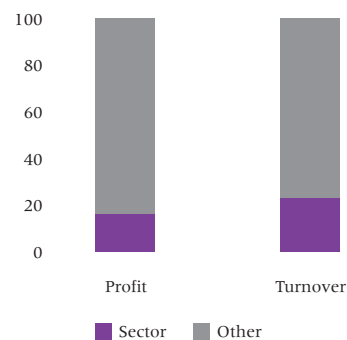
Southern Hospital, Galle, which was acquired in June 2007 has improved its infrastructure and medical care while expanding its customer base. Construction of the new wing is expected to be completed during the latter part of the year.

The Nursing school which was opened in January 2007, will be completing training of over 50 nurses in June 2008, and would play an integral role in our plan for the hospital services sector.

Completing and commissioning the two hospitals next year is the key focus area for the sector. Delivery of the service promise of quality, patient centric medical care at affordable prices is a considerable challenge, and resources and systems are being put in place to achieve this goal.

There have been a number of industry discussions on the direction of Government policy on Pharmaceuticals which could change the landscape of the Industry. We believe that this market should not be over-regulated and that the Government policy of the past has provided for freedom of choice. This has been judiciously used by the medical profession to cater to all segments of the market and encouraged healthy competition to the ultimate benefit of the consumer. We have actively participated in these discussions and look forward to a proactive policy regime. On our part, we are actively implementing the Code of Ethics for medical representatives (developed by the Chamber) in a concerted effort to set an example in ethical and responsible Pharmaceutical marketing and distribution practices.

Segment vs Group (%)



Revenue & Net Profit after Taxation (Rs. Mn.)

