

CEO's Review

In these challenging times, it is the faith in the ability of our people that enables us to dream and plan for a new era of growth.....



I am happy to report another year of satisfactory performance as we go into our 60th year in business with plans to embark on a new and exciting growth strategy. Your Company did well to record an Earnings growth of 12.9% given the adverse external environment which affected most of our businesses, especially during the first half of the financial year. For the year ended 31st March 2008, your company recorded a Turnover of Rs.14.2Bn reflecting a growth of 20.3% over the previous year, and Earnings of Rs.1.1Bn. It is also noteworthy that the Net Operating Cash Flow has been restored to its usual high levels from a low point last year. This year we have attempted to provide a more detailed analysis of our Financial performance under the section on Management discussion and analysis.

The Sri Lankan economy grew by 6.8% during the year 2007, vis-à-vis a 7.7% growth in 2006. Whilst all three key economic sectors - agriculture, industry and services - underwent declines in growth rates compared to the

previous year, the agricultural sector in particular has shown a significant drop in growth, from 6.3% in 2006 to 3.3% last year. Despite a healthy real rate of growth in economic output, escalating inflation and rising interest rates have been challenging hurdles to overcome for most of our businesses.

Notwithstanding a 12.4% growth in earnings per share to Rs.11.13, the Hemas share closed at Rs. 87.50 as at 31st March 2008. At this price, the stock was trading at a Price Earnings Ratio of 7.8. The Company has paid out a Gross Interim Dividend of Rs. 126.6Mn to Shareholders as at date.

Hospital developments will expand our presence in the Healthcare Sector

Our endeavor to enter the Hospital industry was the biggest initiative that we undertook during last year, and ensuring proper project execution of this Rs.2Bn project was one of our key priorities. I am happy to report that our flagship 100-bed hospital in Wattala is on schedule to open towards the latter part of 2008 and we expect this 'patient-centric' facility to significantly raise the standards of healthcare in the area. The long-term success of a hospital would depend on many aspects with regard to its strategy and execution. To this end, we have made good progress towards securing a good mix of well known Consultants, having a dedicated team of well-trained nurses (through our nursing school) and rolling out an effective system of internal processes.

Much work has also been done to improve and expand Southern Hospital in Galle that we acquired in June 2007. This facility too is expected to be fully operational towards the end of the year.

The total project will be funded through a debt-equity mix of approximately 50:50 and more than 30% of the equity has been funded by private equity investors reiterating confidence in the project and your Company.

With regard to our existing operations in the Healthcare Sector, the Pharmaceutical Distribution business consolidated its market leadership closing out 2007 with a share of 15.2% (Source: IMS) in a market which had a modest growth of only 2.8% during the year. Our

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Revenues, however, grew by 9.8% to close at Rs.3.1Bn whilst Profits were up by 30.9% to Rs.184.5Mn. The business continues to focus on improving customer service levels whilst improving efficiency and productivity to stay competitive in an intensely competitive market.

We strengthened our Portfolio of Winning Brands

Our FMCG business had a challenging year during which its revenues grew by 8.8% to Rs. 4.2Bn. In the first half of the year margins were eroded as high input cost increases could not be passed on to the consumer. This was largely rectified in the second half of the year and exit margins (except for soaps where palm oil prices remain at record high levels) have been largely restored. Additionally investment relief on factory relocation resulted in a net profit growth of 28.5%.

We continued to consolidate our position in our core Personal Care business with most categories holding or gaining share. Our strategy of growing in allied categories is starting to kick in and we now have a small but sustainable brand presence, from where we can grow, in sizeable categories like Personal Wash, Household and Snack Foods. *Baby Cheramy* our flagship baby care brand won the prestigious Overall Brand of the Year award at the Sri Lanka Institute of Marketing Brand Excellence Awards. Several of our bigger brands like *Clogard*, *Kumarika* and *Diva* also increased market share over the year.

Built at a cost of Rs. 700Mn, a key initiative for the year was the commissioning of our new 150,000 sq ft manufacturing facility in Dankotuwa which will enable us to deliver manufacturing efficiencies whilst increasing capacity to support our growth plans. A key component of this facility is the 'Hemas Innovation Centre' which will significantly enhance our capability to design and develop innovative solutions in line with consumer needs. No less important is the excellent environment that has been provided for the workforce as well as the resultant benefits to the locality where we have developed a pre-school and helped out in other ways. The relocation cost will be offset, to an extent, by future tax benefits.

We recorded a Mixed Performance in our other Businesses

The Transportation sector grew its revenues by 12.5% for the year under review to close at Rs. 570.7Mn, whilst Profits grew by 18.4% to Rs. 121Mn. Within the sector, the Airline Representation business did well recording an impressive growth, mainly owing to higher passenger volumes and increased profitability in the cargo business.

Performance was helped by the increased frequency of Malaysia Airlines to Colombo from 3 flights per week to 4, and a strong increase in market share by Emirates mainly due to middle-east traffic. A noteworthy event during the year was the entry into the Maritime sector through obtaining the agency for FAR Shipping Singapore which operates a feeder service in the region. Results in our Freight Forwarding business were below expectations and the sector is exploring several avenues to arrest value erosion.

Leisure Sector profitability was impacted by poor results at Hotel Serendib which was closed for 6 months of the financial year. In general, the industry too had another poor year with lower tourist arrivals and pressure on yields. A bright star was the performance of Hotel Dolphin which delivered a Net Profit of Rs. 54Mn, making it one of the most successful resort properties in the island. Hemtours, the Destination Management arm of the sector entered into an understanding with Thai based Diethelm Travel Group to benefit from its global distribution reach in promoting tourism to Sri Lanka and the Maldives.

The Power sector recorded a Turnover growth of Rs. 1.62Bn which represents a 44.5% increase for the year under review. Despite the high turnover growth the profit growth was only 1.0% due to high finance cost which was a result of increase in working capital build up. The increase in working capital is attributed to the increase in oil prices, which although being a pass through cost, necessitates the injection of additional working capital to finance fuel stocks.

We continuously invest in building a High Performance Team

At Hemas we believe that the passion and quality of our senior leadership is directly correlated with the success we achieve in business. In this respect we have continued to invest in learning and exposure interventions to our senior management. Many of them have gone through Individual Development Centres (carried out by an International HR consulting group) designed to help them develop their leadership skills in alignment with 7 key competencies required of a Hemas leader.

A key concern has been the ever increasing number of people who are leaving our shores for greener pastures. Whilst there is little we can do to arrest this, we try to retain our best talent through constantly providing opportunities for career advancement. Also, we have placed more emphasis on succession planning and Management Trainee programs in order to ensure that necessary resources are available to lead our businesses and the various initiatives we are undertaking.

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Whilst we grow we strive to 'Give Back'

In building a sustainable business, we are ever mindful of the need to enrich the lives of the communities we operate in and to preserve our environment. Our Piyawara program now fosters 32 pre-schools across all parts of the island impacting the lives of over 3,000 children. The program received international recognition at the annual Asian CSR Awards 2007 held in Ho Chi Minh City, Vietnam amongst a distinguished gathering.

This year we extended the program with "Piyawara Lamapuraya" children's parks in Gampaha and Pottuvil which were received with great joy by the children. Also a pilot project was launched together with the collaboration of the Colombo North Police Division to train officers to curtail child abuse.

Over the years we have raised the level of environmental consciousness amongst those who work in the company and several initiatives were undertaken towards reducing our carbon footprint.

We have a new Strategic Roadmap for accelerated growth

It is important for a Group with diverse interests to have an objective and rigorous system by which it manages its portfolio. During the year we commissioned A.T.Kearney (a global management consultancy firm) to work with us on this and help formulate an accelerated growth strategy for the business.

As a result, we now have a clearer understanding on which businesses we need to focus on and have identified several new growth initiatives for the future. In order to make this happen, a new flatter Organizational structure aligned with strategy has been put into place. We intend that this would create an empowered environment which encourages calculated risk taking in order to build sustainable businesses that can thrive in a challenging environment. Along with this a series of initiatives to reshape our internal culture in alignment with our new stance have also been set in motion

We look to 2008 with Energy and Enthusiasm

The coming year promises to be an eventful year for your company. Born in the year of Sri Lanka's independence, Hemas will turn 60 along with our nation. The coming year will also see the commissioning of our new FMCG facility which will give us the capability to pursue growth initiatives both here and overseas. The opening of our hospitals will mark our entry into the Healthcare service

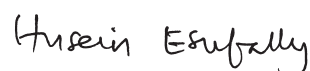
industry and we are determined to bring new standards of medical care to the patients we will serve. Our first mini-hydro plant will also be commissioned towards the latter part of 2008, thus giving us a presence in the renewable energy sector which we believe has much potential.

But the coming year will not only see us break new ground in terms of our businesses. We are also setting out to break some of our internal practices and mindsets and reinvent our organization. A visible manifestation of this is our new Purpose statement (given in the front cover) and our new Logo which seeks to preserve the best of the past whilst representing movement and energy for the future.

I would like to thank our Chairman and the Board of Directors for their constant support and guidance. My sincere thanks to Mr Simon Scarff who served as a Non-Executive Director for four years. Mr Pradipta Mohapatra joined our Board in July 2007 and we have already seen the benefit of his wide and international exposure on our deliberations. Mr Debu Bhatnagar who functioned as Head of the FMCG sector since 2000 left us in March 2008 and I am happy that he has agreed to stay on as a Non-executive Director and have no doubt his understanding of the Company will serve the Board well.

In conclusion, I wish to thank all our stakeholders, especially our valued customers, for placing their trust and confidence in Hemas. As we look towards a new era of growth, we look forward to touching more people's lives in an even more meaningful way. It is this intent that is behind our new tagline - Enriching Lives.

Last but not least let me thank most sincerely all the 2000 plus men and women who make up the Hemas family. In these challenging times, it is the faith in the ability of our people that enables us to dream and plan for a new era of growth which will no doubt bring lasting rewards for all stakeholders.



Husein Esufally
Director and Chief Executive Officer

23rd May, 2008