Chairman's Review

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When I sat down to write this report last year, we had a dream of peace evoked by the statements made by the Government and His Excellency the President. All dreams evaporate at dawn. Ours too with the dawn of reality that war and peace will march in tandem together. Devolution and the elimination of the LTTE. This scenario and unfavourable trends in the world commodity markets released the economic demons that now haunt and torment business in Sri Lanka. Inflation and interest rates have been soaring like a kite in a high wind. Consumers buffeted by higher costs had to tighten their belts and consumer demand was not buoyant. Our important FMCG business did well in the context of the prevailing scene. Sales grew by 8.8% but higher costs put pressure on margins and hence operating profits decreased by 13.7%.We have however begun to see an improvement in margins.

We have an investment in the Leisure business. The resonance of the war drums and the bangs of periodic explosions reached the ears of both travel operators and Foreign Governments who cautioned their citizens with adverse travel advisories. Not all the charms of our country like no other could counter this and the tourist arrivals did not improve. The leisure sector produced very disappointing results.

The interest rates marched higher and higher and all businesses in the country are suffering from the increase in finance costs. At the end of the year despite the difficult external environment the business did well to generate an increase in revenue of 20.3%. The economic environment made it difficult to sustain margins and the profit from operating activities was Rs.1,606Mn, down 4.4%. Profit before tax was down 10.5% largely due to the burden of finance cost. However due to tax planning we have a profit after tax of Rs.1,151Mn up 12.9% from last year.

The chief executive in his review will deal with the performance in greater detail.

It is not my intention to make any prediction about the future, but I will attempt to address the reasonable expectation of shareholders to get some whiff of the Boards attitudes and strategy pertaining to the future. The character and quality of a Board which is the high table of decision making in a public company depends on who sits around this table. Hemas is an old successful family business that went public. The sublime quality of all successful family businesses is the entrepreneurial spirit and the willingness to do things they had not done before which is the quintessence of enterprise. We are fortunate to have members of the family who bring to the high table of decision making this great tradition and spirit of enterprise. They bond with the seasoned professionals from the ranks of the non executive directors, to form collectively a Board imbued with enterprise but tempered with all the good disciplines of prudent management. This approach has meant that we are not standing still and are not intimidated by the fangs of the economic demons surrounding us. We have completed building a new factory in Dankotuwa. We are extending our investments in power and have invested in a new mini hydro project that will come on stream towards the end of this year. We have acquired a hospital in Galle and are developing it to pursue our concept of provincial hospitals and have started work on a major 100

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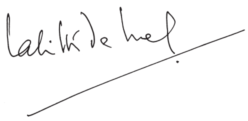
bed hospital in Wattala. Looking further ahead we sought the inputs of the world renowned firm of management consultants A T Kearney to devise strategies and options for the future and we are digesting their recommendations and weaving them into strategies to be pursued.

As a relatively new public company perhaps a few words on governance. We are now totally transformed from private to public. Good governance is well entrenched and all the Board Committees are functioning well. We were sad to lose one of our non executive directors Simon Scarff. An acquisition created a faint theoretical tinge of a conflict of interest and in the highest traditions of good governance sadly Simon left our Board. He made a most valuable contribution and guided this business to becoming a robust public company. We are indeed fortunate that Pradipta Mohapatra who has a wealth of relevant experience, has joined our Board.

I thank my colleagues on the Board for their support and contribution and all our employees who have contributed to achieving a good result in a difficult year.



Lalith De Mel

Chairman

23rd May, 2008