

CHAIRMAN'S REPORT



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PROFIT AFTER TAX - Rs. Mn

1,315

CASH FROM OPERATIONS - Rs. Mn

949

The expected peace dividend that would create massive inflows of investment has not materialised. On reflection this should not be perceived as a negative. There are a large number of countries that have peace. With peace we have joined the club of peaceful countries. We are on a level playing field with the rest. The only surprise is that we ever expected a peace dividend!!

Investment funds will flow to where there is a competitive advantage which gives the investor the potential to get good returns. Tourism is a classic example. We have a competitive advantage and we are therefore seeing interest and inflows of funds.

Modern business leaders place importance on the impact on the environment, human rights and governance as these are areas of concern to their shareholders. Countries that do not score well on these three dimensions will suffer the consequences and will find that this will diminish inflows of funds. We must hope that the Government will deal vigorously with the problems of abductions, violence and corruption as they will be the log across the river that will reduce the inflow of investments.

When planning for the future it is necessary to take a view of the future and to develop strategies in that context.

I think the macro economic fundamentals are quite sound and this gives us confidence about the future. Inflation is single digit, unemployment figures are coming down and compared to most parts of the world our unemployment numbers are impressive even though they to some extent have been helped by those moving out as migrant workers. Reserves are adequate, government debt as a percentage of GDP is declining. The only blip that will not go away easily is the deficit in the balance of trade, but as long as other inflows bridge the gap it does not really spoil an otherwise good report card. Overall with modest assumptions of investment inflows GDP growth is expected to be around 7 to 8%.

Your Board has viewed the future through these very lightly rose tinted glasses. Therefore we are continuing our commitment to growth in the future. This means that in addition to optimising revenue and profit growth from current activities we have been and we are continuing to invest in incremental activities that will give us new slabs of revenue in the future. We believe this will help us to create greater shareholder value in the future. The flip side to this is that in the short term the interest costs of the investments in new activities will depress earnings. Whilst we will be mindful of sustaining

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earnings growth we will not let this stifle investment for the future which we believe is the best route to build shareholder value.

We are continuing to pursue our three prongs of investment activities that will create long term value, namely Hospitals, Power and Hotels.

The CEO in his report will comment in detail on our performance during the year. So rather than repeating all of this I will confine my comments saying that our sales increased by 18.5%, EBITDA by 5.8%. However profit before tax and earnings remained flat due to the reasons I have commented upon earlier and a bit of bad luck with one of our new initiatives, the mini hydro plants where the power generated was low due to the drought. Increases in working capital during the year had a negative effect on the Group's operating cash flow reducing it by 52%.

We continue our successful, journey from family firm to a well structured public company. Family members are moving away from their executive roles. We have a very good governance structure . The three committees namely Audit, Remuneration and Nomination have worked well during the year. There are separate reports on these activities in this report. I think we have very good professional management teams across our businesses and we give a lot of attention to developing our people skills.

We welcome to the Board Mr. R Gopalakrishnan .He has immense corporate experience and we are delighted and fortunate that he has joined our Board. I must congratulate the CEO Mr. Husein Esufally on another excellent performance. I must thank the members of the Board for their help and support. What we achieve is entirely due to our staff and to all of them I say a big Thank You.



Lalith De Mel

Chairman

May 25, 2012