CHIEF EXECUTIVE OFFICER'S REVIEW

GROUP REVENUE - Rs. Mn

21,410

EARNINGS - Rs. Mn

1,209

"Whilst we anticipate that there will be short term challenges to the economy, we remain optimistic about Sri Lanka's long term growth and many of our investment strategies are predicated on that."

Dear Shareholder,

As an eventful year comes to an end and paves the way for another, it is indeed my pleasure to report to you on the Company's performance for the year ended March 31, 2012. It was encouraging to see the Company close the year with positive momentum, after experiencing a challenging first half.

Revenues showed a robust growth of 18.5% to record Rs. 21.4Bn for the year under review, key contributors to revenue growth being Power (32.7%), Healthcare (14.8%) and FMCG (13.7%) sectors. The steady growth of our Hospital volumes together with the healthy performance of our pharmaceutical business contributed towards the continuous topline growth of the healthcare sector. The growth seen by the Power sector is attributable to the hike in furnace oil prices, a pass through cost of our thermal power operation. Our FMCG sector faced a challenging environment during the first half of the year, but was successful in ending the year on a positive note with a strong momentum in sales growth. Despite the closure of Hotel Serendib, which was subsequently rebranded as Avani Bentota, the Leisure sector posted a topline growth of 14.3%. A shrinking cargo market contributed to the drop in revenue of 1.7% of the Transportation sector, which was somewhat mitigated by the impressive growth witnessed in passenger sales.

Whilst Earnings for the first half were down by 17.2%, performance bounced back strongly during the third and fourth quarters with Earnings up by 12.6% and 19.6% respectively, enabling the Company to close out the year with Earnings of Rs.1,209Mn, a marginal decline from the previous year's Rs. 1,210Mn. Earnings were driven by the strong performances of Pharmaceuticals, Aviation and FMCG businesses, which grew by 35.1%, 28.8% and 10.7% respectively, whilst results were dampened by the poor rainfall in the catchment areas of our hydro plants, the closure for refurbishment of Hotel Serendib (which reopened as Avani Resort, Bentota) and startup losses and development expenses of our new Hospital projects. In addition, the steep decline in the Sri Lankan Rupee during the latter part of the year, caused unexpected exchange losses that impacted reported earnings.

For the Sri Lankan economy, 2011 was a mixed year, during which an impressive GDP growth of 8.3% coincided with increasing pressure on prices, currency and interest rates. The impact of these pressures was increasingly evident during the latter part of 2011 with the inevitable repercussions spilling over into 2012 with even greater impact. Whilst the depreciating rupee, increasing costs of borrowing and heightening inflationary pressures have all impacted our Group's performance in general, certain industry-specific challenges such as high commodity prices, Euro zone crisis and the year-round drought have stunted growth in some of our businesses. In a business environment which was increasingly uncertain, it was a challenging task to deliver results without losing focus on our long-term investment plan. For the year under review the Group has generated Operating Profits of Rs. 1.96Bn, a growth of 7.7%, whilst investing Rs. 1.5Bn in projects that we believe will hold the Company in good stead in years to come.

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At the current market price of Rs. 22.00 (25/05/12), your stock is trading at a price-earnings multiple of 9.4 on 2011/12 earnings. This reflects an earnings yield of 10.6% implying good underlying value for the stock, given the long-term growth potential of our underlying and new businesses.

UNDERLYING BUSINESSES: THE CORE THAT DRIVES THE GROUP

While our underlying businesses, namely FMCG, Pharmaceuticals, Hotels, Aviation and Power, experienced mixed fortunes during the year under review, many of them closed the year on a high note.

The FMCG business sustained a difficult first half with its revenues growing at a moderate pace of 8.5% in a highly competitive market environment. Gross margins were also under immense pressure due to high raw material prices, as a result of which sector profits declined 12.7% during the first half. The second half of the year saw a spirited comeback by the business, with revenues growing by 19% and profits soaring by 41.3%. Whilst Baby Cheramy and Clogard remains the main flagship brands of our business, growth over the year was led by Kumarika, Velvet and Fems brands, which saw significant growth in market share and revenues in their respective categories. Our new offering for the year included Kumarika Face Wash, marking its entry into the growing market of skin cleansing, along with useful extensions to its existing shampoo and hair oil propositions, all of which were inspired around a 'naturals' platform. In addition, Clogard extended its presence in the oral care category with its Multi-Vitamin variant whilst Diva Detergent Powder was extended to the whitener category with Diva White Power. During the year, our sanitary napkins brand Fems underwent a facelift and was re-launched with a new look and feel. As we anticipate a more dynamic and competitive marketplace going forward, we continuously look to align our product portfolio with the evolving consumer.

Pharmaceutical distribution has been a steadily growing business over the past few years, and for the year under review the business recorded a revenue growth of 13.4% and an impressive profit growth of 35.1%. The business was significantly impacted by the rapid decline in the Rupee during the latter part of the year, stunting its growth which otherwise would have been even better. Hemas has been the long-standing market leader in pharmaceutical distribution and we have further strengthened our leadership position by extending our market share to 17% (source: IMS). During the year the business acquired a new agency Panacea Biotec which specializes in Nephrology. In this business, our long-term strategy is to most effectively serve the Sri Lankan market by attracting and retaining Principals that manufacture pharmaceuticals which address our market needs effectively in terms of quality, efficacy and affordability. According to the Health Ministry, the new Drug Policy will be presented to the Parliament soon and currently it is with the legal draftsman. Even with the proposed changes in the Drug policy, the Company is well placed to continue its service to Sri Lankan patients through the mix of MNC's and Branded Generic Companies that it represents. The Company welcomes a policy to streamline the Pharmaceutical industry in Sri Lanka, and plays an active role at the Pharmaceutical Chamber (SLCPI) which has made several recommendations to improve the effectiveness of the proposed reforms.

The key highlight of our Hotels Sector, which comprises the Serendib Group of Hotels, was the repositioning and rebranding of Hotel Serendib as Avani Resorts, Bentota. The total cost of refurbishment was Rs. 650Mn, and the hotel is now positioned to target an up market clientele. The closure of the hotel resulted in a decline in profits, understating the real performance of the Sector, which in fact enjoyed a tremendous year. Club Hotel Dolphin and Hotel Sigiriya grew its earnings by 340% and 213% respectively to close the year at Rs. 91Mn and Rs. 47Mn respectively. Given the improved outlook of tourism to Sri Lanka, the sector has revived its plans to develop its 43 acre property in Tangalle.

Growth and profitability of our Aviation business suffered during the first nine months of the year due to the industry-wide decline in cargo volumes, overshadowing the growth in the passenger sales market. During the first nine months, profits declined by 8% but due to the steady growth in our passenger sales coupled with a late recovery in the cargo market, the business was able to close the year successfully, posting a 28.8% growth in profits. Going forward, the sector is evaluating several investment opportunities in the Maritime & Logistics space where it sees significant potential.

Power Sector profits were depressed throughout the year due to extremely low rainfall in the catchment areas of our hydro power plants. Revenues were up 32.7% as a result of higher furnace oil prices being passed through to thermal power revenues. However this has no positive effect on profitability and the poor performance of our hydro plants determined the overall profitability of the sector, which delivered Earnings of Rs. 203Mn, a decline of 36.3% over last year. Our third mini hydro power plant, which is located in Upper Magal Ganga, commenced operations in September 2011. With this 2.4MW plant, our total renewable energy capacity is now 7.0MW, which is in addition to Heladhanavi, the 100MW thermal plant at Puttalam. Our strategy remains to grow our portfolio of renewable energy projects and to this end, we have already embarked on a Rs. 750Mn project for a 3MW biomass power plant. Furthermore, the Sector is currently carrying out the groundwork for an offshore opportunity in East Africa for a 10MW mini hydro plant.

NEW INVESTMENTS: DRIVING AN AMBITIOUS GROWTH PLAN

In the past few years, the Group has been actively investing in Hospitals, Hotels and Power, with a long-term focus. Over the past 5 years, Group investments have exceeded Rs. 5Bn.

From a business portfolio perspective, the most noteworthy investment in the recent past has been our entry into Hospitals space, where we invested over Rs. 2Bn from 2007 to 2009. Our hospital model is built around the idea of making quality healthcare easily accessible to the target market. As we continuously focus on perfecting our operating model, we continue to experience a growing patronage at our multi-specialty facilities in Wattala and Galle. For the year under review, total revenues from Wattala and Galle hospitals have grown by 23.8% which led to an EBITDA growth of 25.3%. With the ACHSI (Australian Council on Healthcare Standards International) certification in 2011, Hemas Hospitals became the first and only hospital in Sri Lanka to obtain an international accreditation. Moreover Hemas Hospitals is the first hospital to receive the OHSAS 18001

(Occupational Health & Safety Advisory Services) certification, which is the international standard for health and safety of patients and staff. With the learning experiences from our first two hospitals coupled with our long-term positive outlook on the industry, we embarked upon our third project at Thalawathugoda in early 2012. With this project our total investment into the Hospital sector will exceed Rs. 3Bn and we look forward to expanding our model into more suburban towns and key cities outside Colombo over the longer term.

PEOPLE AND GOVERNANCE: KEY TO SUSTAINABLE GROWTH

As a public listed company, maintaining high standards of governance is important to us, and we strive to ensure that governance facilitates sustainable performance and growth rather than constrain it. Each of our key businesses is governed by an active board which provides a strategic oversight and ensure business risks are managed well. The involvement of independent directors who can add value at business level is important to ensure that performance and conformance go hand in hand. Focusing on people development is a natural outcome of governance as it is a key aspect of the continuity of the organization. Leadership development in particular has been a key area of focus at Hemas during the past year and there is no doubt that this will be a key priority going forward. In our Group, each of our leaders has an individualized development plan focusing on leadership training, executive coaching and special assignments. From time to time we transfer our leadership resources across businesses and across functions as an effective tool of leveraging our top talent to address key priorities of the Group.

Over the year under review, the company launched its Sustainability initiative with the advice from a leading consultancy firm. Having completed a successful pilot project in our Pharmaceuticals business, the company hopes to roll this out across all Group businesses over the coming years. Under this project, Group Sustainability guidelines have been introduced to ensure that sustainability in the context of Hemas is understood and adopted by all employees to ensure that it becomes a way of life at Hemas. It is intended that this would bring significant long term benefits through better stakeholder engagement and reduction of our environmental footprint. Our flagship Corporate Social Responsibility project 'Piyawara' in collaboration with the Children's Secretariat of Ministry of Child Development & Women's Affairs celebrated 10 years of partnership with the government. The year under review saw a new concept named 'Piyawara' Community Preschools' being introduced to assist the marginalized communities in rural Sri Lanka. The first ever 'Piyawara' community preschool is being constructed in Ambalnagar which is a newly resettled village in the district of Kilinochchi.

Whilst we anticipate that there will be short term challenges to the economy, we remain optimistic about Sri Lanka's long term growth and many of our investment strategies are predicated on that. Our priority as always remains to deliver shareholder value through earnings growth, and we will strive to do this by improving the performance of our core businesses, whilst constantly looking for acquisition opportunities that have a strategic fit with our portfolio

In conclusion, I wish to thank my Chairman and the Board of Directors for their active participation and guidance to steer the Group forward. My special thanks to Mr. Debu Bhatnagar who retired from the Board having completed 3 years as a Non-Executive Director, following his previous association with us as Head of the FMCG business. I am indeed happy to welcome Mr. R Gopalakrishnan who joins us as an Independent Director to fill the vacancy. My sincere thanks as always to the entire Hemas team who have always given off their best to support the company in its endeavors.

Our Customers remain at the core of our business, and I thank them for their patronage and support, along with our Business partners who have placed their confidence by partnering with Hemas. Finally, my sincere thanks go out to all our shareholders for the faith you have placed in the company, and we assure you of our best efforts in delivering superior performance in the coming year and beyond.

Husein Esufally
Cheif Executive Officer
May 25, 2012