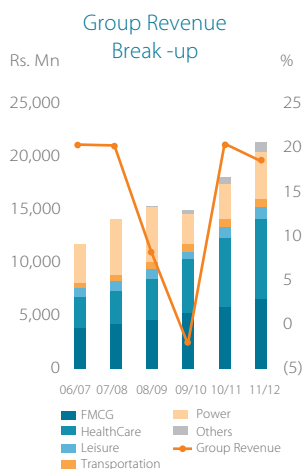
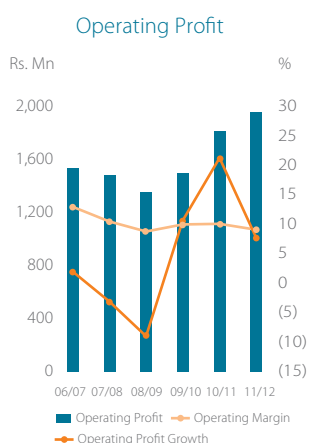


FINANCIAL REVIEW



GROUP REVENUE

Consolidated revenue for the year was Rs. 21.4Bn, an 18.5% growth over the previous year. In terms of revenue contribution, our two largest sectors are Healthcare and FMCG, which account for 34.9% and 30.8% respectively, of consolidated revenue, followed by the Power sector which accounts for 20.9%. Healthcare sector grew by 14.8% during the year, supported by the steady buildup of volumes at our Hospitals and the strong performance by our Pharmaceuticals business which continued to strengthen its market leadership position, taking its market share to 17% (IMS). FMCG revenue growth which was slowing down during the first half, picked up during the second half on the back of stronger consumer demand to deliver a growth of 13.7% for the year. Power sector grew its top line by 32.7% mainly due to the pass-through effect of higher furnace oil prices, which is the key input to our thermal power operation. Our Leisure sector, which contributes 5.5% of Group revenues, grew its top line at a pace of 14.3% despite the half-year closure of Hotel Serendib, which was refurbished and relaunched as Avani Resort, Bentota in December. Our Transportation sector which makes up 3.4% of Group revenues, suffered a 1.7% decline in revenues due to a shrinking cargo market, despite its impressive performance with regard to the passenger business. Other revenues, which have grown by 55.8% was largely due to the encouraging performance by our Systems Integration business which experienced its most successful year since inception in 2008. In terms of impact on revenue growth, FMCG, Healthcare and Power sectors were instrumental in delivering 15.9% out of the 18.5% overall revenue growth.



OPERATING PROFIT

Operating Profit (before interest cost and exchange losses due to foreign currency borrowings) of the Group for the year ended 31 March 2012 was Rs. 1.96Bn, a 7.7% increase from the previous year. However operating margins declined from 10.1% to 9.1% over the year, largely due to the declined profitability of the Power sector, where operating margins dropped from 15.5% to 9.5%. The steep drop in Power sector operating margins is attributable to the lower profitability of our mini hydro segment on the back of poor rainfall and the pass-through effect of higher input costs of the thermal power segment. Operating Profits of FMCG have grown by 8.6% with an operating margin of 9.1% compared to previous year's 9.5%. FMCG margins were dampened last year due to higher raw material prices vis-a-vis the previous year. Profitability of the Personal Wash category in particular took a beating with the significant increase in distilled fatty acid prices. Operating Profits of the Healthcare sector grew at a healthy pace of 24.1% largely driven by the revenue growth of both Hospitals and Pharmaceuticals as well as continuous improvement in

	Revenue Mix 10/11	Growth 11/12	Contribution to Growth		Revenue Mix 11/12
			Absolute 11/12	11/12	
FMCG	32.1%	13.7%	4.4%	23.8%	30.8%
Healthcare	36.1%	14.8%	5.3%	28.9%	34.9%
Leisure	5.7%	14.3%	0.8%	4.4%	5.5%
Transportation	4.1%	(1.7%)	(0.1%)	(0.4%)	3.4%
Power	18.7%	32.7%	6.1%	32.9%	20.9%
Other	3.4%	55.8%	1.9%	10.3%	4.5%
Group	100.0%	18.5%	18.5%	100.0%	100.0%

operational efficiencies of the Pharmaceuticals business. Operating margin of the sector has increased to 7.9% during the year under review from 7.3% in the previous year. Leisure sector saw its operating profits increase by 59.9%, due to the strong performances at Club Hotel Dolphin and Hotel Sigiriya, despite the closure of Hotel Serendib. Leisure sector operating margins were impressive at 19.4% compared to 13.9% the previous year. In the Transportation sector, operating margins improved from 35.8% to 38.2%, but the decline in revenue restricted the growth in Operating Profits to 4.9%.

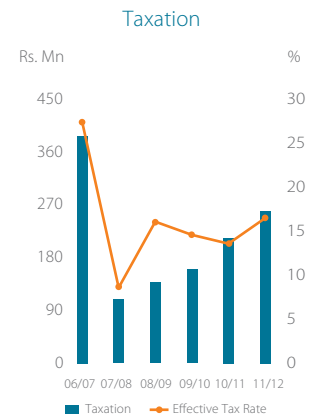
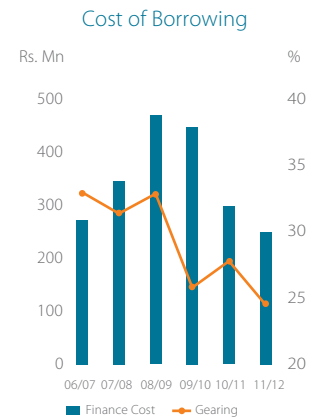
COST OF BORROWING

During the year under review, cost of borrowing was impacted due to the rapid depreciation of the rupee resulting in Rs. 165Mn of exchange losses on foreign currency borrowings as well as interest expenses of Rs. 250Mn. The total cost of borrowing of Rs. 415Mn is a 33.4% increase on the Rs. 311Mn recorded in the previous year. The majority of the local currency borrowings are applied into our Hospital business. Foreign currency borrowings are concentrated on the Leisure sector and Power sector. Whilst Heladhanavi has USD 18Mn outstanding borrowings to fund its thermal power operations, Serendib Hotels Group has outstanding borrowings of EUR 2Mn and GBP 2Mn which financed the refurbishment of Club Hotel Dolphin in 2010 and the repositioning of Hotel Serendib last year. Whilst long-term borrowings have declined from Rs. 1.70Bn to Rs. 1.39Bn, a drop of 18.5%, mainly due to capital repayments and recognition of current component of borrowings, short-term borrowings have increased by 18.6%, from Rs. 2.38Bn to Rs. 2.82Bn, where the majority is used in Heladhanavi operations. As a result, the total debt in the Group has increased 3.1%, from Rs. 4.08Bn to Rs. 4.21Bn.

As the growth in total debt is lower than the accumulation of retained earnings of the Group, total gearing has decreased from 27.8% to 24.5% over the year.

TAXATION

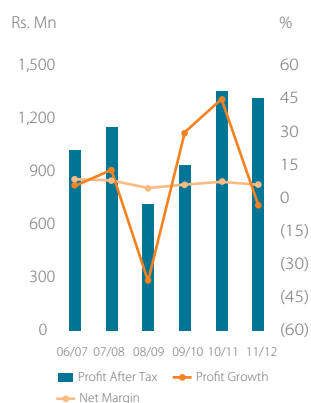
Taxation for the year under review has increased by 21.6%, from Rs. 214Mn to Rs. 260Mn. The effective tax rate for the year was 16.5% as against 13.6% in the previous year. The key reasons for the increased effective tax rate is that the highest pre-tax profits were generated by the highest tax paying businesses in the Group and the relatively large unrealized exchange losses, which do not result in tax deductions despite the reduction in pre-tax profits.



	Revenue Mix		Operating Margins		Margin Impact		
	10/11	11/12	10/11	11/12	Mix	Profitability	Total
FMCG	32.1%	30.8%	9.5%	9.1%	0.0%	(0.1%)	(0.1%)
Healthcare	36.1%	34.9%	7.3%	7.9%	0.0%	0.2%	0.2%
Leisure	5.7%	5.5%	13.9%	19.4%	0.0%	0.3%	0.3%
Transportation	4.1%	3.4%	35.8%	38.2%	(0.2%)	0.1%	(0.1%)
Power	18.7%	20.9%	15.5%	9.5%	0.0%	(1.1%)	(1.1%)
Other	3.4%	4.5%	(23.2%)	(17.0%)	(0.3%)	0.2%	(0.1%)
Group	100.0%	100.0%	10.1%	9.1%	(0.5%)	(0.4%)	(0.9%)

FINANCIAL REVIEW

Profit After Tax

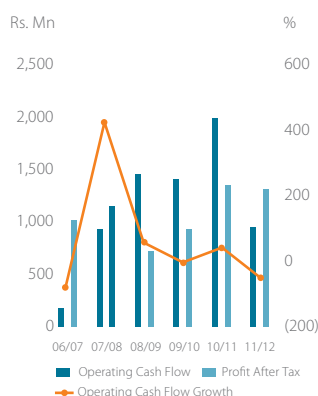


PROFIT AFTER TAX

Profit after Tax of the Group for the year under review was Rs. 1,315Mn, a 3% decline compared to previous year's Rs. 1,355Mn. The 7.7% growth in Operating Profits has been translated into a 3% decline in Profits after Tax as a result of the 33.4% increase in the cost of borrowing and the 21.6% increase in taxation. Profit after Tax has been mainly driven by the Healthcare sector which saw an impressive growth of 53.3% on the back of a strong performance by our Pharmaceuticals business and the steady buildup of business volumes at our Hospitals. On the other hand Leisure and Power sectors have dragged profit growth due to the large exchange losses suffered on the foreign currency borrowings. In addition, the poor rainfall across the catchment areas of our mini hydro plants further deteriorated Group profits.

Net margin of the Group declined from 7.5% to 6.1% during the year under review. This decline is largely attributable to the significant drop in Power sector margins, from 12.6% to 6.1%.

Cash Flow



CASH FLOW

Net Cash from Operating Activities declined 52.4% from Rs. 1,995Mn to Rs. 949Mn. A net outflow of Rs. 922Mn into working capital has dragged cash flow generation, with the Power sector causing the largest impact due to delayed payments by the CEB.

Net Cash used in Investing Activities has been Rs. 1.44Bn, 15.9% higher than the previous year. The bulk of this amount was invested in the refurbishment of Hotel Serendib and the Magal Ganga Mini Hydro Project. Net Cash Used in Financing Activities for the year was Rs. 457Mn, which is a 234.7% swing compared to the Rs. 339Mn of Net Cash generated from Financing Activities in the previous year.

Table 3: Net Margin Analysis

	Revenue Mix		PAT Margins		Margin		
	10/11	11/12	10/11	11/12	Mix	Profitability	Total
FMCG	32.1%	30.8%	9.0%	8.7%	0.0%	(0.1%)	(0.1%)
Healthcare	36.1%	34.9%	3.6%	4.8%	0.0%	0.4%	0.5%
Leisure	5.7%	5.5%	11.8%	8.0%	0.0%	(0.2%)	(0.2%)
Transportation	4.1%	3.4%	30.5%	33.5%	(0.2%)	0.1%	(0.1%)
Power	18.7%	20.9%	12.6%	6.1%	0.0%	(1.2%)	(1.3%)
Other	3.4%	4.5%	(27.3%)	(23.4%)	(0.3%)	0.1%	(0.2%)
Group	100.0%	100.0%	7.5%	6.1%	(0.5%)	(0.8%)	(1.4%)

RETURN ON INVESTMENT

Return on Capital Employed (ROCE) has declined from 13.5% to 12.3% due to the drop in operating margin from 10.1% to 9.1% while asset utilization rate has remained stable. The increase in effective tax rate from 13.6% to 16.5%, coupled with lower gearing has caused the Return on Equity (ROE) to decline to 12.3% from 14.6% in the previous year.

Table 4: Return on Investment					
	07/08	08/09	09/10	10/11	11/12
Operating Margin	10.5%	8.8%	10.0%	10.1%	9.1%
Asset Turnover	1.15	1.08	0.97	1.02	1.02
Asset/Capital Employed	1.29	1.27	1.29	1.31	1.32
ROCE	15.7%	12.1%	12.5%	13.5%	12.3%
Interest Cover	4.2	2.8	3.3	6.2	7.3
Effective Tax Rate	8.6%	16.1%	14.6%	13.6%	16.5%
Gearing	31.4%	32.9%	25.8%	27.8%	24.5%
ROE	19.4%	11.5%	12.3%	14.6%	12.3%