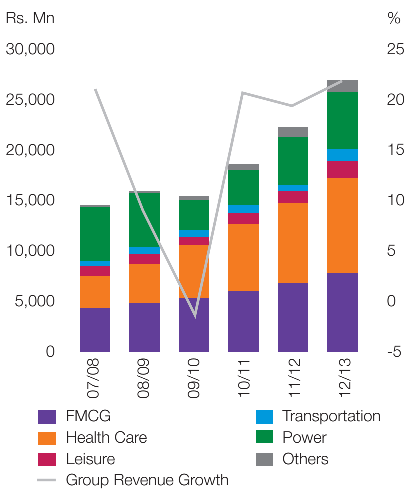
FINANCIAL REVIEW

GROUP REVENUE



The financial statements have been prepared as per the new Sri Lanka Accounting Standards (SLFRS/LKAS) issued in line with the International Financial Reporting Standards becoming effective from 1 January 2012, and includes Statement of Financial Position as at the end of the period (formerly Balance Sheet), Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended and notes, comprising a summary of significant accounting policies and other explanatory information.

GROUP REVENUE

The Group posted a revenue growth of 21.2% to record Rs.26.1Bn (as per SLFRS) for the year ended 31 March 2013, as compared to Rs.21.5Bn in the previous year. Transportation, Leisure and Power sectors posted the highest level of growth with year-on-year growth rates of 52.5%, 38.6% and 23.2% respectively. The biggest contribution to revenue growth came from Healthcare, Power and FMCG which grew by 20.0%, 23.2% and 14.5% respectively. In terms of contribution to Group revenue, Healthcare and FMCG sectors reported the highest, which account for 34.4% and 29.5% respectively, of consolidated revenue, followed by the Power sector which accounted for 21.1%.

Healthcare sector posted a revenue growth of 20.0% to record Rs.9.0Bn driven by the growth in Pharmaceutical distribution which continued to strengthen its market leadership position, taking its market share to 17.9% (source: IMS). Our Hospital business also posted a 22.7% growth in turnover during the year under review experiencing a good year with high in-patient occupancy compared to the previous year. The FMCG sector recorded a revenue growth of 14.5% compared to last year led by the strong performance of our personal care and personal wash categories. Power sector revenue was mainly boosted by the revenue growth of our thermal power plant due to the pass through effect of escalating fuel prices. The Transportation sector experienced strong revenue growth of 52.5% driven by its underlying businesses, aviation and maritime, whilst our new logistics business further augmented its top line. The Leisure sector's revenue, which increased by of 38.6%, was enhanced by the high occupancies and ADRs enjoyed by our hotels and the increase in volumes of our inbound tour operations.

Table 1: Revenue Analysis - SLFRS

	Revenue Mix 11/12	Growth 12/13	Contribution to Growth		Revenue Mix 12/13
			Absolute 12/13	12/13	
FMCG	31.2%	14.5%	4.5%	21.4%	29.5%
Healthcare	34.7%	20.0%	6.9%	32.7%	34.4%
Leisure	5.5%	38.6%	2.1%	10.0%	6.3%
Transportation	3.4%	52.5%	1.8%	8.3%	4.2%
Power	20.8%	23.2%	4.8%	22.7%	21.1%
Other	4.4%	23.1%	1.0%	4.8%	4.5%
Group	100.0%	21.2%	21.2%	100.0%	100.0%

OPERATING PROFIT

The operating profit of the group for the year ended 31 March 2013 was Rs.2.4Bn, an increase of 36.4% leading to an operating margin of 9.3% in comparison to 8.3% of previous year. The Leisure sector reported the highest growth in operating profit of 113.0% while Sector margins increased from 20.4% to 31.4%, largely driven by the strong performance of Club Dolphin Hotel and first full year impact of Avani Bentota. Operating profits of the Healthcare sector which contributed 33.1% to the group operating profits grew by 39.9%, largely driven by the operational efficiencies of the Pharmaceutical business and the revenue build-up at hospitals. This led to an Improvement in sector operating margins from 7.7% to 9.0%. The FMCG sector recorded an operating profit growth of 24.2% year-on-year with an improvement in margins from 8.2% to 8.9%. Margins of the Sector were impacted by the imposition of VAT on large scale wholesalers and supermarkets introduced in the 2013 Budget. The Transportation sector also reported a strong growth in operating profits of 51.3% closing at Rs.379Mn for the year due to the impressive performance in the aviation and maritime segments. Power sector reported a decline in operating margins from 7.3% to 5.7% due to the challenges faced during the year, mainly due to high O & M charges and low rainfall experienced in the catchment areas. Other sector which comprises our systems integration business, property management and corporate overheads has seen its margins decline from -17.0% to -22.4%. However overall operating margins of the Group has improved from 8.3% to 9.3%.

OPERATING PROFIT

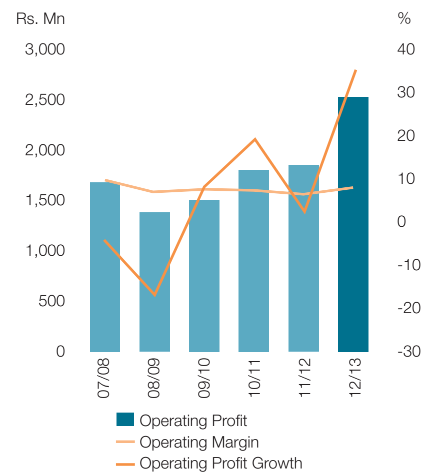


Table 2: Operating Margin Analysis - SLFRS

	Revenue Mix		Operating Margins		Margin Impact		
	11/12 %	12/13 %	11/12 %	12/13 %	Mix %	Profitability %	Total %
FMCG	31.2%	29.5%	8.2%	8.9%	0.0%	0.2%	0.2%
Healthcare	34.7%	34.4%	7.7%	9.0%	0.0%	0.4%	0.4%
Leisure	5.5%	6.3%	20.4%	31.4%	0.2%	0.6%	0.8%
Transportation	3.4%	4.2%	34.7%	34.4%	0.2%	0.0%	0.2%
Power	20.8%	21.1%	7.3%	5.7%	0.0%	-0.3%	-0.3%
Other	4.4%	4.5%	-17.0%	-22.4%	0.0%	-0.02%	-0.3%
Group	100.0%	100.0%	8.3%	9.3%	0.4%	0.7%	1.0%

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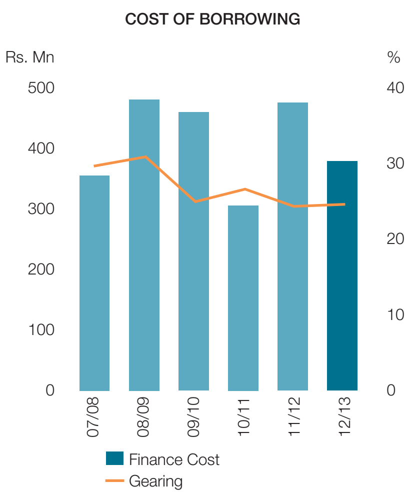
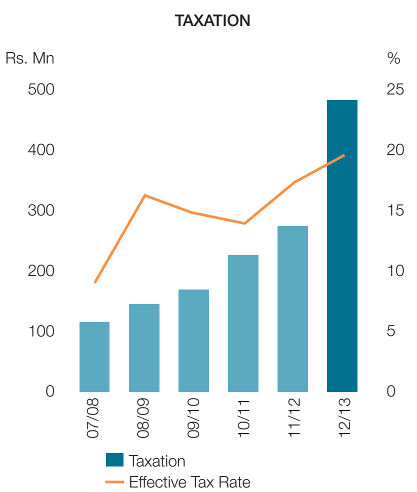




COST OF BORROWING

Finance cost for the year ended 31st March 2013 was Rs.370Mn, a 20.5% reduction compared to last year. This was mainly due to the lower interest rates enjoyed due to foreign currency loans in the Leisure sector in the presence of a relatively steady Rupee and IFRS adjustment for Employee Share Option Scheme (ESOS) receivable amounting to Rs.67Mn. During the year under review, a healthy cash generation by the businesses led to improved internal funding, further reducing finance cost of the group. Whilst long term borrowings increased from Rs.1.38Bn to Rs.2.18Bn, an increase of 57.6%, short-term borrowings have decreased by 24%, from Rs.936Mn to Rs.715Mn.The Group's gearing increased from 25.0% to 25.5% as compared to that of last year.

TAXATION

Taxation for the year under review has increased by 81.8% from Rs.260Mn to Rs.472Mn. The effective tax rate for the year was 19.6% as against 17.1% in the previous year. The key reason for the increased effective tax rate is that the highest pre-tax profits were generated by the highest tax paying business in the Group. Further the new tax law has excluded holding, subsidiary or associate companies applying the concessionary tax rate of 10% granted for undertakings engaged in manufacturing or provision of services where the turnover is less than Rs.300Mn, resulting in some of our businesses paying taxes at the standard rate of 28%.

Table 3: Net Margin Analysis - SLFRS

	Revenue Mix		PAT Margins		Margin		
	11/12 %	12/13 %	11/12 %	12/13 %	Mix %	Profitability %	Total %
FMCG	31.2%	29.5%	8.6%	9.7%	-0.1%	0.3%	0.3%
Healthcare	34.7%	34.4%	4.3%	5.5%	0.0%	0.4%	0.4%
Leisure	5.5%	6.3%	10.4%	28.3%	0.2%	1.0%	1.2%
Transportation	3.4%	4.2%	34.0%	29.8%	0.2%	-0.1%	0.1%
Power	20.8%	21.1%	5.7%	5.2%	0.0%	-0.1%	-0.1%
Other	4.4%	4.5%	-27.2%	-32.5%	0.0%	-0.2%	-0.3%
Group	100.0%	100.0%	5.9%	7.4%	0.3%	1.3%	1.6%

PROFIT AFTER TAX AND EARNINGS

Group's profit after tax for the year ended 31 March 2013 was Rs.1,934Mn, a 53.3% increase compared to previous year's Rs.1, 261Mn. In addition to the 36.4% growth in operating profits, increase in Group's finance income by 69.3% and decrease in finance costs by 20.5% largely contributed to this growth. Sector wise, the growth in profit after tax was largely driven by the Leisure sector which reported a growth of 275.4% compared to the previous year. The highest contribution to profit after tax came from the FMCG sector which amounted to 38.5% of the Group profit after tax.

The Group ended with net earnings of Rs.1,658Mn for the year recording a 42.3% growth over previous year's Rs.1,165Mn. Net margin of the group increased from 5.9% to 7.4%. Significant increases were seen in the Leisure sector where the net margin increased from 10.4% to 28.3%, and the FMCG sector where margins grew from 8.6% to 9.7%. (Table 3).

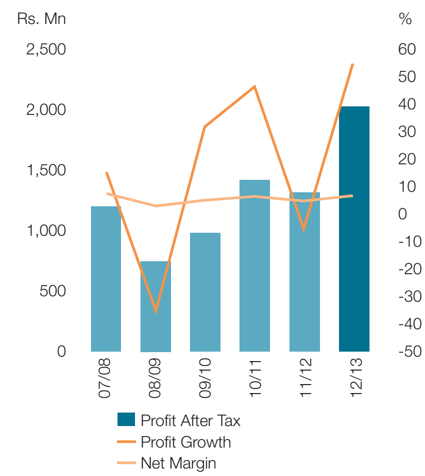
CASH FLOW

Net cash flow from operating activities increased by 42.1% from Rs.1,508Mn to Rs.2,143Mn, largely driven by the improved profitability of the businesses and to a lesser extent, the management of working capital. Net cash generated from financing activities for the year was Rs.131Mn, which is a 130.0% swing compared to previous year's Rs.438Mn outflow. This is mainly due to the net increase in interest bearing loans and borrowings for the investment in our new hospital project in Thalawathugoda.

RETURN ON INVESTMENT

Return on capital employed (ROCE) increased from 13.4% to 15.4% due to the increase in EBIT margin from 9.8% to 10.7% while asset utilisation rate improved marginally from 1.03 to 1.07. Although the effective tax rate has increased from 17.1% to 19.6%, improved margins and the marginal increase in asset turnover has ensured a healthy improvement in our return on equity (ROE) from 12.0% last year to 14.5% for the year ended 31 March 2013.

PROFIT AFTER TAX



CASH FLOW

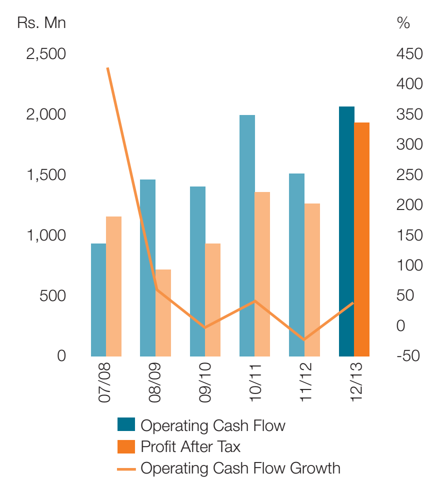


Table 4: Return on Capital

	08/09	09/10	10/11	11/12	12/13
EBIT Margin	8.8%	10.0%	10.1%	9.8%	10.7%
Asset Turnover	1.08	0.97	1.02	1.03	1.07
Asset/Capital Employed	1.27	1.29	1.31	1.33	1.34
ROCE	12.1%	12.5%	13.5%	13.4%	15.4%
Interest Cover	2.8	3.3	6.2	4.3	7.5
Effective Tax Rate	16.1%	14.6%	13.6%	17.1%	19.6%
Gearing	32.9%	25.8%	27.8%	25.0%	25.5%
ROE	11.5%	12.3%	14.6%	12.0%	14.5%

2011/12 and 2012/13 figures are based on SLFRS