CHIEF EXECUTIVE OFFICER'S REVIEW

" Whilst Sri Lanka will no doubt face her own share of challenges, we remain optimistic about the medium and long term prospects for growth. The Company has strong positions in high growth industries, and our task is to focus on building competitive advantage in order that we remain relevant in a fast changing environment "

It gives me great pleasure to present you the performance of your Company for the year ended 31 March 2013. For the period under review, the Company has witnessed strong growth with most businesses delivering strong results. Group revenue registered Rs. 26,098Mn, representing an increase of 21.2% over the previous period. In terms of consolidated profits, it was an exceptional year, with the Group registering a profit after tax of Rs. 1,934Mn, representing a growth of 53.3%. The Group posted a notable growth in Group earnings to close at Rs. 1,658Mn posting a remarkable growth of 42.3%. The Groups' operating profits recorded a growth of 36.4% to post Rs. 2,434Mn from Rs. 1,784Mn, while operating cash flows increased to Rs. 2,143Mn from Rs. 1,508Mn. The increased profit margins help drive the return on capital employed to increase to 15.4% from 13.4% and the return on equity to improve to 14.5% from 12.0%.

The economy grew at a pace of 6.4% during 2012 vis-à-vis 8.2% in 2011 whereas inflation picked up, closing with an annual average inflation of 7.6% for 2012 versus 6.7% for the previous year. Whilst the 12-month Treasury-bill rate increased from 9.3% to 11.7% during 2012, average prime lending rates offered by banks increased faster, from 10.8% to 14.4%. The Rupee depreciated by 15.4% against the US Dollar during 2012, from an exchange rate of Rs.110.6 to Rs. 127.6. From an overall macroeconomic perspective, long-term business confidence remains positive, but the past year presented environmental challenges as evident by some of the economic indicators mentioned above.

During the year under review, the All Share Price Index increased by 6.2% whilst the stock price of Hemas Holdings increased by 2.7%. With Group earnings of Rs. 1.7Bn for the year ended 31 March 2013, your stock is trading at a trailing multiple of 10.9 given its current market price of Rs. 35.00.

A year of exceptional operational performance...

Our FMCG business enjoyed a successful year with its revenues growing by 14.5% and profits growing by 28.8%, to close at Rs. 7.7Bn and Rs. 745Mn respectively.

This was in the context of a difficult year for the industry, with growth coming largely from price inflation. The depreciation of the Rupee impacted profit margins during the early part of the year, although price revisions during the latter part helped recover most of the margin losses. The 2013 budget introduced VAT on large scale wholesalers and supermarkets, and this resulted in a temporary disruption of supplies to the modern trade, together with a decline in realisations due to the additional margins foregone to the channel.

Despite these challenges, the business was able to improve its market standing in overall terms. In personal care, growth was driven by strong performances in baby, oral, hair and feminine hygiene categories. During the year under review, our flagship brand *Baby Cheramy* completed its 50th anniversary, which was celebrated by launching the 'Big Heart Project' which brought our 1996 World cup champions back on the cricket field to raise funds for orphaned children. We were especially honoured that the event was graced by His Excellency, President Mahinda Rajapakse. *Kumarika* continues to make its mark on the international stage with the hair oil now accounting for 10% share in the non-coconut/herbal hair oil segment in Bangladesh. Our shares in personal wash continue to grow, where we are now a clear second, with *Velvet* displacing the long standing leader to become the No.1 player in the beauty soap segment. *Diva* continues to hold share despite intense MNC competition, demonstrating the appeal of its value for money proposition. During the year under review, we exited from the foods & confectionery categories by selling our *Mr Pop* and *Yummee* brands.

Our Healthcare sector performed exceptionally well during the year with a revenue growth of 20.0% and profit growth of 53.8% to close at Rs. 9.0Bn and Rs. 493Mn respectively. Our Pharmaceuticals business was the largest contributor to Group revenues during the year, with revenues of Rs. 7.7Bn. Hemas Pharmaceuticals continued to strengthen its market leadership position in pharmaceuticals distribution with a share of 17.9% (source: IMS), whilst the overall market experienced a growth of 15.9%(source: IMS). During the year, Hemas Pharmaceuticals successfully attracted business from Sun Pharma Limited which is the 3rd largest pharmaceutical company in India. Our existing hospitals posted encouraging results with revenue growth of 22.7% and EBITDA growth of 22.3%. Business build up of our flagship hospital in Wattala continued to be impressive with with increasing average occupancy levels.

Our Leisure sector enjoyed one of its best years, as it posted a revenue growth of 38.6% and a profit growth of 275.4% for the year under review. The sector closed the year with revenues of Rs. 1.6Bn and a profit of Rs. 464Mn. On the back of tourist arrivals in 2012 surpassing the one million mark, both our Destination Management business, as well as our hotels, posted significant growth in terms of revenues and profits. Average occupancy across our hotel portfolio was above 75%, and Club Hotel Dolphin and Avani Bentota in particular performed exceptionally well. Kani Lanka Resort, which is 20% owned by the Serendib Group and managed by Serendib Leisure Management Ltd, underwent a Rs. 550Mn refurbishment during the year, and was reopened, newly branded as Avani Kalutara, in November 2012. For its service excellence, our hotel group was awarded several accolades during the year, such as the Holiday Check Award for Club Hotel Dolphin for being one of the 99 most popular hotels worldwide in the family category, and the Agoda Gold

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Circle Award won by Avani Bentota for excellence in online distribution.

Driven by strong growth in the Aviation and Maritime business segments, our Transportation sector completed an excellent year. Sector revenues grew by 52.5% to reach Rs. 1.1Bn, whilst profits increased to Rs. 328Mn reflecting a 33.6% growth. Our GSA business maintained its market leadership position and our travel agency increased its market share. Our GSA for Malaysia Airlines opened a new branch office in Matara during the year, adding to its first one in Kandy. Another key achievement for the sector during the year was securing the GSA for China Southern Airlines. High throughput levels at the Colombo port helped our ship agency business perform well during the period under review.

The lack of rainfall in the catchment areas and depreciation of the Rupee has negatively impacted the performance of our Power sector. Despite this, sector revenue has increased 23.2% to Rs. 5.5Bn, whilst sector profits have grown 12.8% to Rs. 286Mn. During the year the sector has generated 650 GWh units of energy to the national grid, representing a 6% contribution to the country's electricity generation.

Whilst our investment for the future continues unabated...

Whilst we focus on driving operational results, we remain bullish about the future of Sri Lanka, and the region. With this in mind, each of our sectors is encouraged to come up with ambitious growth plans.

In the Healthcare services sector, we see good long term potential with our model of building high quality general hospitals in areas with high density middle class population. In line with this vision, we took the significant step of embarking on our third hospital project. The 55-bed state-of-the-art facility at Thalawathugoda was a Rs. 1.4Bn investment, and the construction of the hospital was completed in May 2013.

Sri Lanka's strongest strength is our beautiful country and smiling faces, and we see good long term prospects for the Leisure industry. Accordingly, in partnership with the Minor Group, we have embarked on three new Hotel development projects with a development cost of USD 70Mn in properties located in Tangalle, Kalutara and Ambalangoda. These properties are expected to be branded under our partners Anantara and Avani brands, which will leverage on the capabilities of our hotel management team to deliver an outstanding proposition.

The Maritime sector will no doubt receive a boost with the expanding Ports infrastructure. In order to benefit from this growth, the sector entered in to two new ventures - MercMas, a joint venture with Mercantile Shipping PLC to provide crew boat services for the transport of crew, sea marshals and spares; and Hemas Logistics, a strategic investment in a haulage company specialising in repositioning containers for shipping lines.

Our experience in the mini-hydro sector has overall been a good one, and Hemas Power completed the acquisition of a 29.3% stake in Panasian Power PLC in April 2013. As the largest shareholder, we will drive the operations of the Company which, once it completes the development of its Padiyapalelle project in the next few months, would have a total of 8MW of generation capacity.

Reinforced by our confidence in our people...

One of Hemas' real strengths is the passion and commitment of our people at all levels. We devote significant attention to ensure that the basics are in place in terms of competitive compensation, work environment, employee engagement and other initiatives that are in line with best practice.

Over the past few years leadership development has remained a key focus area of the Board, and this effort was further strengthened during the year under review, in which we have made significant investments in leadership coaching, executive education and training as well as hiring critical talent for future growth. These investments are made not only to develop the leadership capabilities of our top team, but also to establish a sound succession planning process for key roles.

During the past year, we contributed towards two of our leadership team members attending world renowned business management programmes at INSEAD and Oxford University. More than 50 other team members attended overseas training including executive education programmes in reputed institutes. Our own Hemas Academy trained more than 515 employees in soft skills while 12 employees completed its management development programme, the Group invested Rs. 73Mn in training and developing our people, with 73% of our staff receiving at least one development initiative. On average an employee at Hemas received 39 hours of training over the year under review.

During the year we launched our second edition of 'Hemas Way', a code of conduct that provides guidelines for ethical business conduct for all employees. Whilst we encourage our employees to take pride in our Sri Lankan identity, we respect diversity whilst emphasising on non- discrimination based on age, gender, race, colour, religion and differently abled personnel.

Always remembering to give back to the community and our nation...

Whilst we are driven to win and deliver results in our businesses, we are also conscious of our responsibility to multiple stakeholders in order to ensure the sustainability of our enterprise. Our key businesses now have a structured sustainability programme where opinions of multiple stakeholders are considered and efforts taken to address concerns. Our sustainability process is guided by Global Reporting Initiatives where guidelines and policies are being rolled out throughout the Group. Whilst encouraging our staff to actively take part in various programmes / projects we motivate them to be innovative in making sustainability a way of life at Hemas.

We are a proud supporter of national initiatives, key amongst them being our 'Piyawara' programme, which in partnership with the Ministry of Child Development & Women's Affairs, has now a national programme with 37 preschools providing education for over 3,000 children in Sri Lanka. As per the national requirement, our work related to early childhood development for the year in review was focused in the resettled areas of the Northern Province providing community preschools and teacher training in Mullaittivu, Kilinochchi and Jaffna.

Several of our businesses have customised community projects to suit the needs of the local community, whilst taking utmost care to protect the environment. Details are available in the sustainability review.

So our optimism for the future remains undiminished...

Whilst Sri Lanka will no doubt face her own share of challenges, we remain optimistic about the medium and long term prospects for growth. The Company has strong positions in high growth industries, and our task is to focus on building competitive advantage in order that we remain relevant in a fast changing environment

Whilst we work at operational excellence in our core businesses of FMCG and Healthcare, we are constantly looking to partner or acquire businesses that have a strategic fit with our operations. We are confident that our newly built hospital at Thalawathugoda will further demonstrate the viability of our business model, which in turn would pave the way for an accelerated growth plan. Whilst the coming year would be impacted by the closure of two of our hotels for refurbishment, our attempts to raise the bar in the industry will continue and in the next few years, we would have a very significant presence in this exciting space.

We see the scarcity of talent as being the single biggest impediment to growth, and a proactive leadership development plan is being put in place.

In terms of financial performance, whilst we anticipate strong growth in underlying earnings to continue in the coming year, startup operational losses in our new hospital and costs of funding our new projects will impact our net earnings, although these investments would lead to long-term growth and sustainable value creation.

In conclusion...

My first task in concluding what has been an exceptional year, is to thank our customers, business partners and other stakeholders for all the confidence and trust they continue to place in the Company. My special thanks also to our Chairman and the Board of Directors for their unstinted cooperation and support. Their wisdom and experience is available to us not only in the Board room, but, at any time where we have called upon them, and this is indeed a source of great support which I value immensely.
Of course, I owe a special debt of gratitude to the entire Hemas team, who have worked under difficult circumstances to deliver outstanding results. It is their commitment and support that gives me the greatest confidence about future prospects for our business.

Finally, my sincere thanks go out to all our shareholders for the trust and confidence you have placed in us, and let me assure you of our best efforts to take Hemas to the next level, and create superior value for us all.

Husein Esufally
Chief Executive Officer

22 May 2013