# CAPITAL REPORTS

## Financial Capital

**Financial Capital refers to the monetary resources available to the Group, including equity, debt, and cash flow. It reflects the Group's capacity to support operations, engage in investments, and facilitate growth, while reflecting its ability to mitigate risks and maintain long-term stability. It enables the organisation to meet financial obligations, fund strategic initiatives, and deliver continuous value to stakeholders.**

### HIGHLIGHTS FOR FY 25

| 34.4% | 3.4% | 8.9% | 17.7% |
|---|---|---|---|
| Increase in PBT year-on-year | Growth in Assets | Reduction in Gearing Ratio | Return on Equity |

### THE GROUP'S FINANCIAL CAPITAL AT A GLANCE

**Trends and Identified Dynamics:**

- Rising costs in key sectors due to global supply chain disruptions.
- Evolving local and international regulations, taxation, and reporting requirements.
- Volatile macro conditions in Sri Lanka and international markets, including inflationary pressures, currency fluctuations and consumer demand.
- Shift in consumer preference and demographics, resulting in businesses reassessing their product/service portfolios, thereby influencing capital allocation.

**Key Focus Areas for FY 25:**

- Enhancing Financial Performance by pursuing efficient operations and higher productivity, to achieve increased profitability.
- Strengthening Financial Position to create long-term stability and enable business continuity.
- Elevating Investor Value by driving consistent returns and achieving growth year-on-year.

### HOW FINANCIAL CAPITAL SUPPORTS VALUE CREATION

- The effective utilisation of financial capital supports stakeholder value, while playing a key role in contributing towards socio-economic development, and driving sustainable goals.
- Strengthens potential for expansion and growth and drives business continuity and stability, thereby fostering confidence and trust in the organisation's long-term viability.

**Impacted Stakeholders:**

Consumers | Employees | Investors | Community

**UNSDGs**

3 Good Health and Well-Being | 4 Quality Education | 5 Gender Equality | 8 Decent Work and Economic Growth | 10 Reduced Inequalities

## QUARTERLY FINANCIAL SNAPSHOT

| Rs. '000 | Q1 | | Q2 | | Q3 | | Q4 | |
|---|---|---|---|---|---|---|---|---|
| | FY 25 | Vs FY 24 | FY 25 | Vs FY 24 | FY 25 | Vs FY 24 | FY 25 | Vs FY 24 |
| Consumer Brands | 8,864,775 | | 10,990,832 | | 16,054,892 | | 10,087,128 | |
| Healthcare | 16,130,329 | | 17,442,107 | | 16,657,470 | | 19,746,158 | |
| Mobility | 475,914 | | 476,704 | | 518,674 | | 486,953 | |
| Other | 5,145 | | 2,437 | | 3,654 | | 27,002 | |
| Revenue | 25,476,163 | (12.5%) | 28,912,080 | (3.1%) | 33,234,690 | 6.4% | 30,347,241 | (3.5%) |
| Gross Profit | 7,610,260 | (3.1%) | 9,139,743 | 5.6% | 11,005,656 | 11.7% | 9,317,630 | (3.3%) |
| Gross Profit Margin | 29.9% | | 31.6% | | 33.1% | | 30.7% | |
| EBIT | 1,930,481 | (10.3%) | 3,092,731 | 11.8% | 4,863,645 | 25.7% | 3,819,772 | 21.9% |
| EBIT Margin | 7.6% | | 10.7% | | 14.6% | | 12.6% | |
| Net interest cost | (214,592) | (71.1%) | (259,559) | (66.0%) | (271,190) | (47.4%) | (232,486) | (46.3%) |
| Income Tax Expense | (713,593) | 149.7% | (1,243,950) | 71.3% | (1,487,898) | 41.0% | (944,700) | (9.7%) |
| Earnings | 945,559 | (13.5%) | 1,508,766 | 23.7% | 3,026,198 | 36.3% | 2,576,438 | 63.6% |
| Earnings Margin | 3.7% | | 5.2% | | 9.1% | | 8.5% | |

## SWOT OVERVIEW

### Strengths

- A diverse talent pool representing multiple industries and facets of society.
- Internal mobility and knowledge sharing that enables employees to gain cross-functional skills.
- A specialised talent pool indicates our ability to attract talent in specialised fields.

### Weaknesses

- High dependency on domestic markets
- Capital allocation complexity

### Opportunities

- Expansion into regional and international markets
- Digital transformation
- Sustainable financing
- Strategic M&A
- Untapped group synergies

### Threats

- Global supply chain disruptions
- Increased cost of regulatory and compliance risks
- Economic and political instability
- Increase in taxation

### PROGRESS IN FY 25:

| Targets for 2030 / Key Focus Areas | Status | Activities in FY 25 | Outlook | Impact |
|---|---|---|---|---|
| Return on Equity (ROE): Sustain above 17% | On Track | Enhancing capital efficiency, reinvesting for growth | Strong returns for investors | Shareholders |
| Debt-to-Equity Ratio: Maintain ≤30% | On Track | Prudent debt management, optimising leverage | Ensuring financial stability | Investors, Lenders |
| CapEx Allocation: 25% towards innovation and digital | On Track | Funding tech transformation and automation | Strengthening competitiveness | Employees, Customers |
| Expansion and M&A investments | Delayed | Leads have made steadfast progress within the investment approval process. | Most of the leads should be approved and finalised, and investments mobilised. | Shareholders, Employees |
| Total Shareholder Return (TSR) at 15% | On Track | Consolidated and further strengthened existing portfolio.<br>Maintained commitment to LRP growth plans<br>Drove cash flow efficiency to increase dividend payout. | Execute investments for long-term TSR growth. | Shareholders, Employees |

On Track   Delayed

### ENHANCING FINANCIAL PERFORMANCE

| Gross Profit | EBITDA | Profit Before Tax |
|---|---|---|
| Rs. **37.1** Bn ↑ | Rs. **15.7** Bn ↑ | Rs. **12.7** Bn ↑ |
| *(Rs. 36.0 Bn FY 24)* | *(Rs. 13.6 Bn in FY 24)* | *(Rs. 9.5 Bn in FY 24)* |

| Earnings | Net Finance Cost | Interest Cover |
|---|---|---|
| Rs. **8.1** Bn ↑ | Rs. **1.0** Bn ↓ | **9.1** times ↑ |
| *(Rs. 6.1 Bn in FY 24)* | *(Rs. 2.5 Bn in FY 24)* | *(3.7 times in FY 24)* |

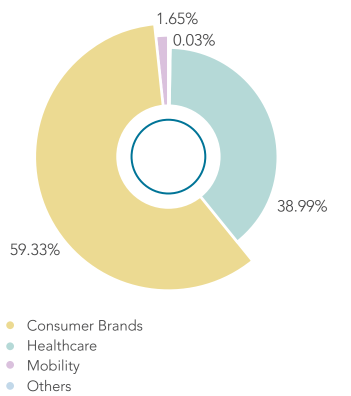
### REVENUE

The Sri Lankan operating environment was characterised by persistent macroeconomic pressures in the first half of the year. However, the second half signalled a gradual shift toward recovery, supported by improving political stability.

The overall product portfolio underwent multiple downward price revisions, driven by market sentiment amid easing inflationary pressures.

Against this backdrop, the Group reported a revenue of Rs. 118.0 billion for the year, reflecting a 3.0% decline from the previous year's Rs. 121.6 billion. As outlined previously, the decrease was primarily driven by price adjustments across the product portfolio, particularly in the Consumer Brands segment. The three year Compound Annual Growth Rate (CAGR) stood at 14.4% during the year.

Revenue Composition



**118.0 Bn**
Group Revenue
*(3.0% ↓)*

Consumer Brands
**46.0 Bn**
*(9.4% ↓)*

Healthcare
**70.0 Bn**
*(1.3% ↑)*

Mobility
**1.9 Bn**
*(14.2% ↑)*

## SECTOR PERFORMANCE

The Healthcare and Mobility sectors demonstrated positive growth during the year, with the former achieving a growth of approximately 1.3%, driven by an increasing demand for essential health products and healthcare solutions. The Mobility sector experienced a robust 14.2% growth, reflecting strong consumer demand for mobility solutions as the country began to recover from prior economic disruptions.

However, the Consumer sector navigated a challenging environment, recording a 9.4% dip in revenue. The Home and Personal Care segment was especially influenced by market fluctuations and shifts in consumer spending patterns. The Learning segment experienced a slowdown in demand, shaped by evolving consumer preferences for value-driven solutions and a more competitive market landscape.

However, the Group demonstrated resilience through strategic product innovations, expansion into new market segments, and leveraging technology and data analytics to enhance operational efficiency. Furthermore, initiatives such as increased distribution reach, expanded brand footprints, and product innovations helped mitigate challenges, thereby positioning the Group for long-term recovery and growth.

## Gross Profit

The increase in Gross Profit to Rs. 37.0 billion (Rs. 36.0 billion in FY24) and the improvement in Gross Profit Margin to 31.4% (29.6% in FY24) were driven by enhanced supply chain and operational efficiencies, a reduction in raw material prices, and the appreciation of the Sri Lankan Rupee (LKR). Additionally, strategic adjustments in the product mix have contributed positively to margin expansion, supporting improved profitability for the period.

## Operating Expenses

Operating expenses decreased by 2.2% year-on-year, reflecting the Group's ongoing commitment to cost optimisation and efficient resource management. This reduction was primarily driven by a series of initiatives focused on process improvements, enhanced sourcing practices, and the decline in energy prices, all contributing to more streamlined operations and reduced overheads.

## OPERATING PROFITS (EARNINGS BEFORE INTEREST AND TAX)

The EBITDA increased to Rs. 15.4 billion from Rs. 13.6 billion, reflecting an improvement of 15.4% year-on-year. This growth was primarily driven by the afore-mentioned gross profit improvements, alongside the Group's strategic cost optimisation initiatives. The EBITDA margin also improved, rising to 13.3% from 11.2%, further highlighting the enhanced operational efficiencies and cost optimisation measures implemented throughout the year.

Similarly, EBIT rose to Rs. 13.7 billion, up from Rs. 12.0 billion, a direct result of the improvements in gross profit, cost optimisation, and the reduction in energy costs. The EBIT margin improved to 11.6% from 9.8%, indicating better profitability after accounting for operating expenses. These positive results demonstrate the Group's ability to enhance its operational performance, reduce costs, and manage external challenges effectively, leading to stronger earnings and margins.

The three-year CAGR of EBITDA and EBIT stood at 24.0% and 26.4% respectively.

## ECONOMIC VALUE ADDED STATEMENTS

| Rs. million | FY 25 | FY 24 | % |
|---|---|---|---|
| Revenue | 117,970 | 121,614 | (3.0%) |
| Share of Result of Joint Ventures/Associates | 452 | 93 | 383.3% |
| Other Investment Income | 526 | 767 | (31.3%) |
| Profit on Sale of Assets & Other Income | 48 | 526 | (90.8%) |
| Valuation Gain on Investment Properties | 253 | 265 | (4.6%) |
| Value Generated | 119,249 | 123,265 | (3.3%) |
| | | | |
| Operating Overheads | 83,115 | 90,851 | (8.5%) |
| Employee Wages & Benefits | 12,756 | 11,541 | 10.5% |
| Payments to Providers of Funds | 3,938 | 4,802 | (18.0%) |
| Payments to Government | 10,939 | 10,146 | 7.8% |
| Community Investments | 35 | 32 | 7.9% |
| Value Distributed | 110,783 | 117,374 | (5.6%) |
| | | | |
| Depreciation | 1,589 | 1,326 | 19.8% |
| Amortisation | 409 | 364 | 12.2% |
| Profit after Dividends | 6,468 | 4,201 | 54.0% |
| Value Retained for Expansion and Growth | 8,466 | 5,891 | 43.7% |

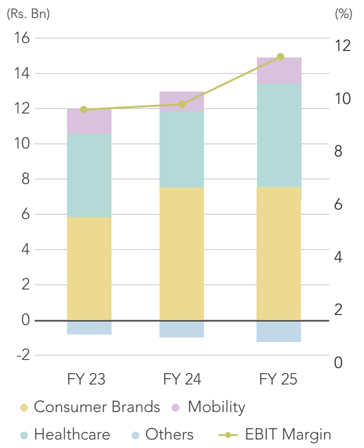
## PROFITABILITY

**31.4%**
Gross Profit Margin
*(29.6% in FY 24)*

**11.6%**
EBIT Margin
*(9.8% in FY 24)*

**6.8%**
Earnings Margin
*(5.0% in FY 24)*

EBIT & EBIT Margin




## FINANCE EXPENSES

The Group recorded a significant reduction in Net Finance Costs, which declined to Rs. 977.8 million from Rs. 2.5 billion, reflecting improved financial efficiency and prudent capital management. This reduction was primarily driven by a lower loan base, a result of effective working capital optimisation, particularly in the management of inventory and receivables.

Additionally, favourable movements in interest rates during the period further contributed to the decrease in interest expenses. These combined efforts reflect the Group's disciplined financial strategy, focused on maintaining a leaner capital structure and enhancing profitability through reduced financing costs.

## TAXATION

The Group's tax expenses increased by 41.0%, rising from Rs. 3.1 billion to Rs. 4.4 billion during the year. This increase was primarily driven by the Group's improvement in profitability and this increase was primarily due to improved Group profitability, higher upstreaming of dividend from subsidiaries, and rise in deferred tax provisions.

The Group has established a dedicated Group Tax division, responsible for developing policies and ensuring compliance protocols to guarantee the accuracy, reliability, and timely submission of tax returns across its entities. By maintaining regular engagement with local tax authorities, the Group strengthens its understanding of changing tax laws, ensuring accurate compliance and minimising risks associated with regulatory complexities. For complex transactions, the Group seeks guidance from external tax experts to ensure full legal compliance. Additionally, ongoing training initiatives for staff are prioritised to effectively manage the Group's tax positions.

### PROFIT AFTER TAX ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (EARNINGS)

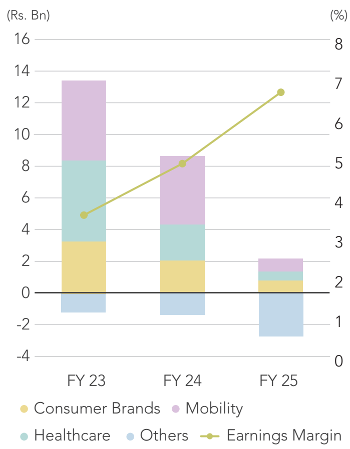
The Group delivered a strong performance during the year, with Profit After Tax (PAT) increasing to Rs. 8.3 billion, compared to Rs. 6.4 billion in the previous year, reflecting a year-on-year growth of 31.2%. Similarly, Earnings rose to Rs. 8.1 billion, up from Rs. 6.1 billion last year, marking an increase of 31.9%. This robust growth was driven by the improved profitability from core business operations and the ongoing impact of cost optimisation efforts, including reduced finance costs. Resultantly, the Group achieved its highest-ever earnings, building on strong operational results and strategic initiatives, thereby setting a solid foundation for future growth and profitability.

The Earnings Margin also witnessed a significant improvement, rising to 6.8% from 5.0% in the previous year. This represents an increase of 1.8%, highlighting the Group's ability to translate revenue into profitability.

This performance reflects the combined effect of increased operational efficiencies, effective cost management, and an ability to leverage on market trends to drive results. The Group's ability to improve margins while expanding earnings demonstrates its continued focus on delivering sustainable growth and value creation for stakeholders.

Furthermore, the Group's commitment to a thoughtfully devised, forward-thinking strategy, prudent financial management, and steadfast adherence to ESG principles ensures that the demonstrated growth in profitability is sustainable over the long term. The Group's focus on responsible business practices and strategic foresight positions it well for continued success in the future.

Earnings & Earnings Margin




### STRENGTHENING FINANCIAL POSITION

#### Assets and Liabilities

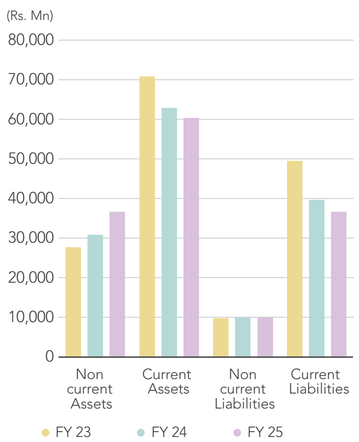
The Group's total assets increased to Rs. 97.2 billion from Rs. 93.7 billion, reflecting a 3.7% year-on-year growth. A key contributor to this growth was the increase in Property, Plant and Equipment (PPE), which rose to Rs. 24.4 billion from Rs. 20.1 billion, largely due to the acquisition of a land in Thalawathugoda and other routine capital expenditure across the Group.

The aforementioned land acquisition marked a strategic investment under the Group's Hospitals segment, focused on supporting the Healthcare sector's expansion and enhancing its service capacity. The Group's capital expenditure activities, largely focused on investments in infrastructure, technology, and other essential assets to sustain long-term operational efficiency and business growth.

The Group invested Rs. 5.1 billion in PPE during the year, more than doubling the previous year's investment of Rs. 2.3 billion, reflecting its continued focus on strengthening operational infrastructure and supporting long-term strategic priorities. Depreciation for the year stood at Rs. 1.6 billion, compared to Rs. 1.3 billion in the prior year, in line with the increase in the asset base.

In contrast, total liabilities decreased to Rs. 46.8 billion from Rs. 50.0 billion, marking a reduction of 5.6%. This decline was largely driven by the Group's ongoing efforts to optimise its loan base, which involved strategic measures aimed at improving working capital management and reducing debt levels. The reduction in liabilities strengthens the Group's financial stability, lowers interest-bearing debt, and further enhances its capacity to invest in future growth opportunities.

Assets & Liabilities Composition



**Assets**

**1.6** ↑
Current Ratio
*(FY 24: 1.6)*

**1.1** ↑
Quick Ratio
*(FY 24: 1.0)*

**1.2** ↓
Asset Turnover Ratio
*(FY 24: 1.3)*

**Equity**

**25.6%** ↑
ROCE
*(FY 24: 22.1%)*

**15.6%** ↓
Debt/Equity Ratio
*(FY 24: 28.8%)*

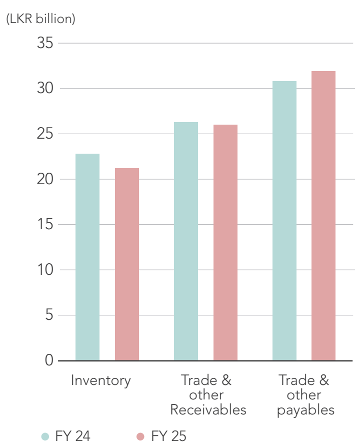
**Liabilities**

**(10.3%)** ↑
Net Gearing Ratio
*(FY 24: (1.2%))*

## Group Debt and Capital Structure

The net working capital decreased by 16.5%, from Rs. 18.2 billion to Rs. 15.2 billion, reflecting the Group's strategic optimisation initiatives in managing inventory and debtor levels. These efforts have led to improved liquidity and operational efficiency by reducing the amount of working capital tied up in less-productive assets.

Working Capital




| Description | FY25 | FY24 |
|---|---|---|
| Short-term debt | Rs. 3,256 million | Rs. 7,298 million |
| Long-term debt | Rs. 4,617 million | Rs. 5,408 million |
| Gross debt | Rs. 7,874 million | Rs. 12,705 million |
| Net debt (Cash) | Rs. 4,705 million | Rs. (517) million |
| Net debt (Cash) to EBITDA | (0.30) times | (0.04) times |
| Debt to EBITDA | 0.5 times | 0.9 times |
| Gearing ratio | 13.5% | 22.4% |
| Net Gearing ratio | (10.3%) | (1.2%) |
| EBITDA to interest cover | 10.4 times | 4.2 times |

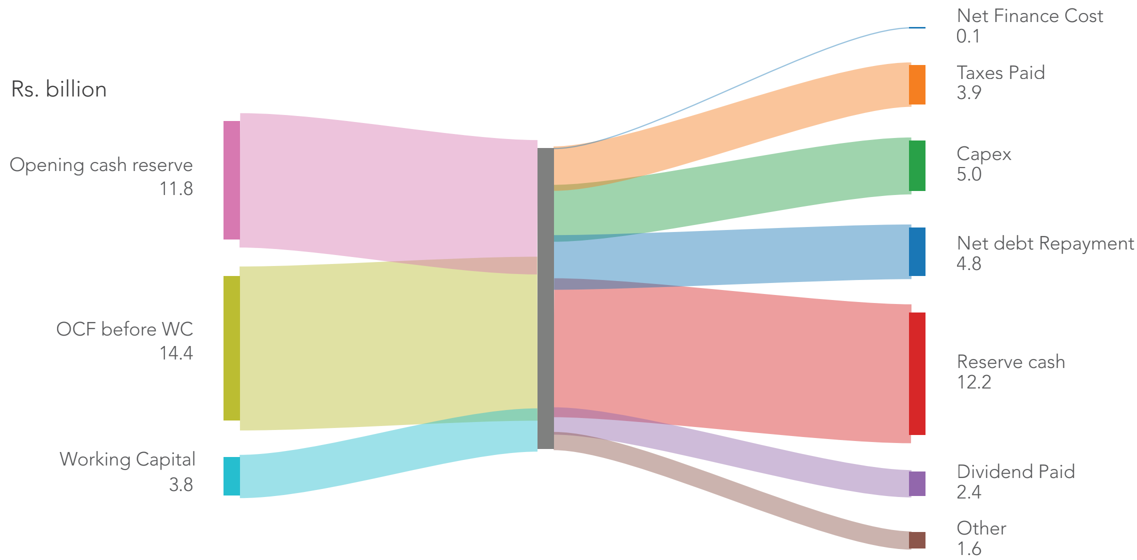
## CASH AND SHORT-TERM DEPOSITS

The Group maintained a healthy liquidity position during the financial year, reflecting disciplined cash flow management across operating, investing, and financing activities.

Net cash flows from operating activities remained strong at Rs. 13.4 billion, compared to Rs. 14.0 billion in the previous year. This consistent inflow underscores the Group's robust operational performance and effective working capital management, which continued to generate solid cash returns despite external economic headwinds.

Net cash flows used in investing activities amounted to Rs. 5.0 billion, compared to Rs. 5.7 billion in the prior year, reflecting a 12.1% decrease. This outflow primarily reflects capital investments in key strategic assets as outlined on page 77, driven largely by a significant land acquisition and other routine CAPEX activities aligned with the Group's long-term strategic priorities.

Cash used in financing activities totalled Rs. 7.9 billion, a from Rs. 8.5 billion in the preceding year. This decline in outflows is consistent with the Group's strategic reduction of financial liabilities, dividend distributions, and scheduled repayment of borrowings—contributing to an




overall improvement in capital efficiency and balance sheet strength.

The Group's cash and short-term deposits stood at Rs. 12.6 billion at year-end, marginally lower than Rs. 13.2 billion in the previous year, a 4.9% decrease. Despite the decline, the Group maintained a strong liquidity buffer to support operational requirements and strategic opportunities.

As a result, the Group reported a net cash position of Rs. 4.7 billion, a substantial improvement from Rs. 518 million in the previous year. This shift underscores the Group's enhanced financial resilience, reduced dependency on external borrowings, and improved flexibility to fund future investments while delivering sustained value to shareholders.

### Key Highlights

- Hemas Holdings PLC acquired the minority interest in Hemas Hospitals, increasing its stake from 89% to 98%.
- In July 2024, Hemas Capital Hospital acquired land in Thalawathugoda for Rs. 1.9 billion to support the planned expansion of its healthcare operations.
- Fitch Ratings reaffirmed Hemas Holdings PLC's AAA (lka) rating with a stable outlook for the sixth consecutive time, reflecting the Group's strong financial profile and resilient cash flows.
- In February 2025, the Company announced a share subdivision, proposing that each ordinary share be split into five. The resolution was approved by shareholders at an Extraordinary General Meeting held on 28th April 2025.

## ELEVATING INVESTOR VALUE

| ROCE | Market Capitalisation |
|---|---|
| **25.6%** ↑ | Rs. **71,677** ↑ |
| *(22.1 in FY 24)* | *(Rs. 47,972 in FY 24)* |

| Share Price | Price/Earnings Ratio |
|---|---|
| **120.0** ↑ | **8.9 times** ↑ |
| *(80.40 in FY 24)* | *(7.7 times in FY 24)* |

| Earnings per Share | Dividends per Share |
|---|---|
| **13.50** ↑ | **4.00** ↑ |
| *(10.23 in FY 24)* | *(2.35 in FY 24)* |

### Equity

Total equity rose significantly to Rs. 50.3 billion from Rs. 44.1 billion, representing a 14.1% increase. This growth in equity is a result of the Group's robust profitability and effective retention of earnings, further solidifying its financial foundation. The increase underscores the Group's ability to generate value for shareholders and to fund future growth initiatives through internal resources, thereby reducing reliance on external financing.

Overall, the Group's improved financial position—driven by prudent investment strategies, a solid increase in equity, and effective debt reduction—provides a strong platform for sustainable growth and future financial flexibility.

The Group continued to deliver enhanced shareholder returns in FY 25, underpinned by strong operational performance, strategic financial management, and consistent value creation initiatives.

Market Capitalisation increased significantly to Rs. 71.7 billion, up from Rs. 48.0 billion, reflecting a robust 49.4% year-on-year growth. This surge was primarily driven by a marked increase in the share price, which rose from Rs. 80.40 to Rs. 120.00, highlighting improved investor confidence and market perception of the Group's performance and long-term prospects.

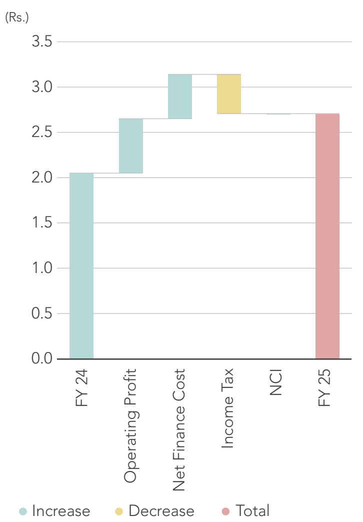
Basic Earnings Per Share (EPS) prior to the share subdivision increased to Rs. 13.50 from Rs. 10.24 in the previous year, reflecting the Group's strong earnings momentum, underpinned by improved profitability, enhanced operational efficiency, and disciplined cost management. Following the 1:5 share subdivision, the adjusted EPS stood at Rs. 2.70, compared to Rs. 2.05 recorded in the previous year on a similarly adjusted basis. This growth in earnings contributed to a Price-to-Earnings (P/E) ratio improvement to 8.9 times from 7.7 times, indicating a higher market valuation on improved fundamentals.

The Net Asset Value per Share rose to Rs. 83.34 from Rs. 72.79, evidencing the Group's continued focus on building a strong balance sheet and enhancing intrinsic value for shareholders.

In line with its commitment to shareholder returns, the Group paid a dividend per share of Rs. 4.00, up from Rs. 2.35 in the previous year, representing a 70.2% increase. The dividend cover decreased from 4.36 times to 3.37 times, and the dividend payout ratio rose from 23.0% to 29.6%, reflecting a balanced capital distribution policy that focuses on rewarding shareholders while retaining sufficient earnings to fund future growth.

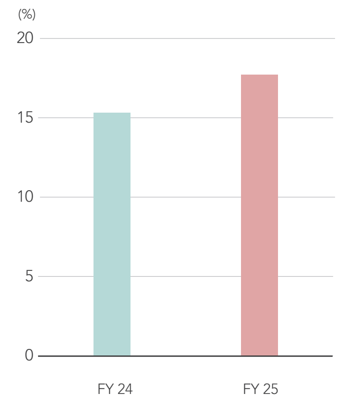
Furthermore, Return on Equity (ROE) strengthened to 17.7%, up from 15.3%, demonstrating enhanced profitability relative to shareholder equity, and reinforcing the Group's ability to generate attractive returns on invested capital.

EPS

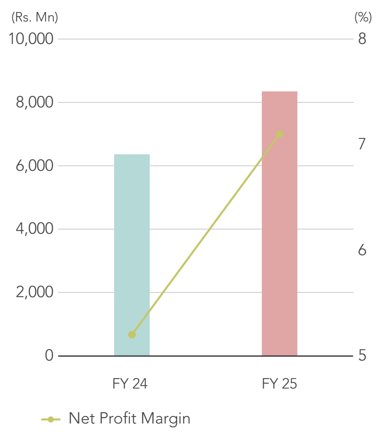


## Return on Equity

### ROE

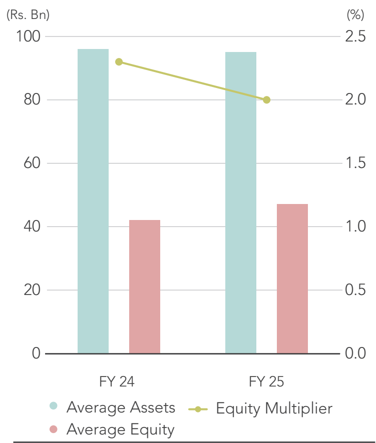



### Net Profit Margin




### Asset Turnover


### Equity Multiplier



## DRIVING STABILITY AND SUSTAINABILITY

As part of its integrated business approach, the Hemas Group embeds sustainability principles within its overall risk management framework. The Group acknowledges that its operations, along with their reliance on environmental and social resources, give rise to Sustainability-Related Risks and Opportunities (SRROs). In response, sustainability efforts focused on managing and mitigating the organisation's impact have been closely aligned with the Group's risk management practices.

By incorporating ESG factors into risk evaluations and strategic decision-making (refer to page 146 for further details), the Group aims to proactively address potential risks and capitalise on sustainability-related opportunities that support long-term value creation. This integrated approach enhances business resilience and sustainability, while reinforcing stakeholder confidence and strengthening competitive positioning. The Group's commitment is further demonstrated through its forward-looking sustainability disclosures, in line with the reporting frameworks of SLFRS S1 and S2.

| Risk/Opportunity | Description | Impact on Business Model | Impact on Value Chain | Impact on Financials |
|---|---|---|---|---|
| Energy | Increased energy consumption and costs | Reduces cost efficiency of operations | Raises production and logistics costs | Erodes operating margins |
| | | Increases dependency on non-renewable resources | Impacts supplier pricing and reliability | Increases utility and overhead expenses |
| | | Pressures shift toward sustainable models | Drives need for energy-efficient practices across partners | May trigger capital expenditure for energy-efficient upgrades |
| Water | Water scarcity and rising water costs | Threatens resource-intensive operations | Disrupts supply chain continuity | Increases operational costs |
| | | Requires adaptation to sustainable water use | Increases input costs for water-dependent suppliers | Potential for regulatory fines or penalties |
| | | Limits scalability in water-stressed regions | Necessitates collaboration on water stewardship | Higher capex for water recycling or conservation systems |

| Impact on Strategy | Resource Allocation and Investments | Results |
|---|---|---|
| Accelerates focus on energy transition and sustainability | Renewable Energy Investments: Ongoing investments to reduce reliance on fossil fuels and lower emissions across all feasible locations. | Rs. 746.0 million invested |
| Influences investment in green technologies | Targeted Projects: New industrial chiller at HCB Dankotuwa and compressed air leak detection to boost energy efficiency. | Rs. 39 million saved |
| Drives energy risk mitigation in strategic planning | Energy Audits: Regular audits to identify inefficiencies and prioritize energy-saving opportunities. | |
| | Adoption of Energy Technologies: Invested in LED lighting, smart automation, and BMS software for real-time energy optimization. | |
| | Operational Efficiency: Optimized AHU operations by shutting down non-critical units during peak hours. | |
| | Employee Engagement: Promoted energy conservation through staff training and internal campaigns. | |
| Promotes investment in water-efficient technologies | Water Monitoring: Installed water meters and monitoring systems to track usage and detect anomalies. | Rs. 2.6 million invested |
| Drives location-specific risk assessments | Leak Detection: Conducted regular inspections and leak detection through annual ESG audits. | Rs. 850,000 approximately saved |
| | Employee Awareness: Educated staff on water conservation and encouraged water-saving behaviours. | |
| Encourages integration of water risk into ESG and resilience planning | Rainwater Harvesting & Reuse: Implemented systems for rainwater harvesting and wastewater recycling for non-potable uses. | |
| | Water-Efficient Infrastructure: Upgraded to low-flow fixtures and water-efficient equipment. | |
| | Innovative Solutions: Exploring dry cleaning systems, closed-loop water systems, and waterless production methods to reduce consumption and enhance sustainability. | |

| Risk/Opportunity | Description | Impact on Business Model | Impact on Value Chain | Impact on Financials |
|---|---|---|---|---|
| Waste | Waste generation and improper disposal | Increases environmental compliance risk<br>Undermines sustainable value creation<br>Necessitates shift to circular economy practices | Affects supplier compliance and reputation<br>Disrupts downstream waste management logistics<br>Raises costs for sustainable packaging and disposal | Potential regulatory fines and cleanup costs<br>Increased waste management expenses<br>Reputational damage impacting revenue |
| Occupational Health & Safety (H&S) | Employee injuries and illnesses | Disrupts operational continuity<br>Impacts workforce reliability and efficiency<br>Increases focus on workplace safety and compliance | Delays in production and service delivery<br>Affects supplier and partner performance through shared risks<br>Raises health and safety requirements across the chain | Loss of productivity increases operational costs<br>Legal claims, compensation, and insurance premium<br>Additional costs for temporary staffing or overtime |
| Staff Training and Retention | High employee turnover | Disruption to continuity and long-term planning<br>Reduced ability to deliver consistent value | Weakening of institutional knowledge across functions<br>Increased pressure on recruitment and training systems | Higher recruitment and training costs<br>Productivity loss and reduced operational efficiency |
| Business Ethics and Governance | Vulnerabilities to corruption, discrimination, and data security breaches | Undermines ethical culture and stakeholder trust<br>Threatens long-term sustainability and reputation | Disrupts supplier and partner relationships<br>Reduces confidence in compliance and governance standards | Legal penalties, fines, and potential lawsuits<br>Increased costs for risk mitigation and remediation |

| Impact on Strategy | Resource Allocation and Investments | Results |
|---|---|---|
| Drives adoption of zero-waste initiatives<br><br>Encourages design-for-disposal or recyclability<br><br>Enhances ESG integration and stakeholder engagement | Waste Minimisation & Packaging Redesign: Reduced excess packaging, increased use of PCR content, and shifted away from 100% virgin plastics with a focus on recyclability and material efficiency.<br><br>Product Stewardship & EPR: Implemented post-consumer waste collection and recycling programmes; active in Extended Producer Responsibility (EPR) schemes.<br><br>Employee & Stakeholder Engagement: Conducted awareness campaigns and training on waste segregation and responsible disposal across the value chain.<br><br>Partnerships for Impact: Collaborated with Eco Spindles, Clean Ocean Force, MEPA, and local communities to scale plastic recovery and recycling efforts.<br><br>Innovation & R&D: Invested in developing compostable, bio-based, and recyclable packaging aligned with circular economy principles. | Rs. 49 million invested |
| Prioritises investment in health and safety infrastructure<br><br>Strengthens risk mitigation and employee wellbeing initiatives<br><br>Drives alignment with ESG and responsible business standards | Training & Awareness: Regular safety training, fire drills, and adherence to safe work procedures.<br><br>Safety Management: Robust system with inspections, incident reporting, and ISO 45001:2018 certification for key sites.<br><br>Infrastructure: Secondary containment and safety pathways to prevent leaks and ensure safe operations.<br><br>Audits & Compliance: Annual ISO 14001 and 45001 audits, and four EHS audits per year.<br><br>Fire Safety: Comprehensive fire safety coverage across all locations. | Rs. 6.4 million invested |
| Slower execution of strategic initiatives<br><br>Loss of critical expertise needed for innovation and transformation | Competitive Rewards: Offer attractive compensation and benefits to retain and motivate talent.<br><br>Continuous Development: Provide ongoing training, mentorship, and skill-building opportunities.<br><br>Inclusive Work Culture: Foster a positive, inclusive environment through strong employer branding, engagement, and social impact initiatives. | Rs. 120 million invested |
| Slows ESG progress and digital transformation<br><br>Necessitates reactive policy changes instead of proactive innovation | Anti-Corruption Measures: Implemented a comprehensive anti-corruption policy with clear reporting and accountability procedures.<br><br>Whistleblowing Framework: Established a formal whistleblowing policy with mechanisms for confidential reporting and prompt investigation.<br><br>Cybersecurity & Data Protection: Invested in robust data security infrastructure and conducted regular employee training on cybersecurity best practices. | Rs. 150 million invested |

| Risk/Opportunity | Description | Impact on Business Model | Impact on Value Chain | Impact on Financials | |
|---|---|---|---|---|---|
| Climate Change | Physical Risks<br>Chronic Physical Risks<br>Acute Physical Risks<br>Transition Risks | Disruption of core operations and resource availability<br>Need to shift toward low-carbon, climate-resilient models<br>Increased compliance and sustainability integration | Supply chain disruptions due to extreme weather or chronic changes<br>Increased scrutiny of sourcing and environmental practices<br>Shift toward climate-resilient and local suppliers | Higher operating and insurance costs<br>Capital expenditures for mitigation and adaptation measures<br>Potential asset impairments and regulatory penalties | |

| Impact on Strategy | Resource Allocation and Investments | Results |
|---|---|---|
| Reprioritisation of ESG and climate-aligned goals<br><br>Investment in green technologies and innovation | Renewable Energy Investments: Committed over Rs. 746 million in renewable energy projects, including rooftop solar installations across all feasible locations.<br><br>Energy Efficiency: Implemented group-wide energy-saving measures to reduce emissions and operational costs.<br><br>Reforestation & Blue Carbon Projects: Actively restoring 56 acres through tree planting and mangrove conservation (e.g., Anavilundawa), enhancing carbon sequestration.<br><br>Waste Management: Reduced use of virgin plastics (e.g., Kumarika packaging redesign), promoted recyclable/compostable product designs (e.g., Baby Cheramy paper-based cotton buds), and minimized landfill emissions through 3R practices.<br><br>Sustainable Supply Chain: Sourced 82% of supplies locally and conducted annual ESG audits for significant suppliers.<br><br>Water Conservation: Implemented water recycling and footprint assessments at key sites; promoted treated water use across operations (except Hemas Hospitals).<br><br>Biodiversity Protection: Invested Rs. 500,000 annually in ecosystem preservation around HCB Dankotuwa; partnered with conservation bodies for broader impact. | Rs. 799.5 million invested |

## FUTURE OUTLOOK

**Key Industry Trends**

Global Supply Chain Disruptions
Ongoing supply chain disruptions are affecting cost structures, lead times, and working capital management.

Digital Transformation
Digital transformation is accelerating the need for investment in technology and infrastructure.

Sustainability and ESG Expectations
Stakeholders are demanding greater transparency and accountability in sustainability and ESG practices.

Regulatory Changes
Frequent regulatory changes are impacting tax planning, compliance, and financial disclosures.

| Risks | Opportunities |
|---|---|
| Market Volatility and Economic Slowdown<br>Economic uncertainty may reduce investor confidence and limit access to capital. | Access to Green and Impact Financing<br>Green bonds and sustainability-linked loans offer new funding avenues for ESG-aligned projects. |
| Currency Depreciation and Exchange Rate Fluctuations<br>Exchange rate volatility can impact profitability, especially in cross-border operations. | Regional Expansion and Diversification<br>Entering high-growth markets helps spread risk and tap into new revenue streams. |
| Credit Risk and Rising Default Rates<br>Exposure to financially vulnerable customers can strain cash flow and liquidity. | Capitalising on Digital Revenue Models<br>Digital platforms such as e-commerce and fintech present scalable, high-margin opportunities. |
| Geopolitical Instability<br>Regional conflicts or instability can disrupt markets and increase the cost of capital. | Public-Private Partnerships (PPPs)<br>Collaborating with the government to drive infrastructure or social projects can unlock long-term value. |

**Group Strategic Response**

Robust Capital Allocation Framework
Focused on value-accretive investments while maintaining financial discipline.

Cost Optimisation and Operational Resilience
Driving lean operations and flexible cost structures to manage downturns.

Prudent Debt Management
Managing leverage and refinancing to lower interest burdens and preserve ratings.

Strengthening Liquidity Buffers
Enhancing cash reserves and access to credit lines for financial flexibility.

Sustainable Financing Initiatives
Exploring green finance and ESG-linked capital instruments to align with stakeholder expectations.

Active Risk Monitoring and Scenario Planning
Using predictive analytics and agile decision-making to navigate uncertainties.